

ORIGINAL
No. 12144

United States
Court of Appeals
for the Ninth Circuit

HOFFMAN RADIO CORPORATION,
Petitioner,

vs.

COMMISSIONER OF INTERNAL REVENUE,
Respondent.

Transcript of Record

In Two Volumes

VOLUME II

(Pages 289 to 571, inclusive)

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(Testimony of Walter D. Douglas.)

Q. So I take it from your testimony, then, that you were not concerned at all with respect to the share, if any, that you might be entitled to of the net earnings of the Petitioner corporation here for the year 1943?

A. Well, in 1943, I was not particularly concerned with it, because I was contributing nothing to the company.

Q. You mean you were not working there.

A. No, sir.

Q. You had contributed your capital.

A. Yes, sir.

Q. And you got some interest on that.

A. Yes, sir.

Q. But you were not interested in any greater return on your capital, is that the situation?

A. Not at that time, no, sir. [277]

Q. You did follow and you could see the progress of the company from time to time up until the time you went into the service?

A. Well, I was also informed while I was in service, so I knew just what the company was doing.

Q. I suppose you had great hopes of its developing into a large corporation having substantial assets and business, and from that you might secure returns on your capital in the company.

A. That is correct.

Q. Was the position of Mr. Davidge more in the nature of an investment than as an active participant in the early stages of the development of his corporation?

(Testimony of Walter D. Douglas.)

A. Well, I don't know just how he felt about it. I mean, to a certain extent he and I both agreed that it was a speculation, but that it might prove to be something, and I think he was interested in seeing the formation of the company, and the management and the developments that were occurring. Now, whether he felt about it actually as an investment or a loan or just what light he viewed it in, I am not sure.

Q. Referring to your testimony that as an investor you considered the financial arrangement, particularly the 3 per cent with Mr. Hoffman and the 1 per cent with Mr. Harmon, to be fair, and that it would not unduly drain your capital investment in the company, did you have any idea that payments [278] to be accrued and paid to those two individuals in 1943 would aggregate about \$85,000.00 under such agreement? Did you have any idea to that effect before the end of 1941?

A. No.

Q. That went beyond your wildest dreams and expectations with respect to the business of the corporation, did it not?

A. I think it all fits into the business. We had no way of seeing that there would be that rapid growth.

Q. That was due to the war orders, was it not?

Y. Yes.

Mr. Crouter: That is all, thank you.

Redirect Examination

By Mr. Milliken:

Q. Mr. Douglas, did you also during the years

(Testimony of Walter D. Douglas.)

1942 and '43 endorse the borrowings at the bank of this corporation? A. I did.

Mr. Milliken: That is all.

Mr. Crouter: No further questions.

The Court: Let me ask you this, Mr. Witness: What branch of the service were you in?

The Witness: United States Navy.

The Court: Did you have anything to do with procurement?

The Witness: I was on board ship, my whole duties.

The Court: This is not a case where you had anything [279] to do with this company getting anything?

The Witness: No, sir. I was on a ship outside the Continental limits all that period.

The Court: That is all I have.

(Witness excused.)

Mr. Milliken: Petitioner rests, your Honor.

The Court: Petitioner rests. What says the Respondent? [280]

Mr. Crouter: Respondent is ready to proceed.

The Court: Call your first witness.

Mr. Crouter: Mr. Cranston, please.

Whereupon,

EDWARD CRANSTON

called as a witness for and on behalf of the Respondent, having been first duly sworn, was examined and testified as follows:

(Testimony of Edward Cranston.)

The Clerk: Tell us your name, please.

The Witness: Edward Cranston.

Direct Examination

By Mr. Crouter:

Q. Where do you live, Mr. Cranston?

A. 435 Plumosa Drive, Pasadena, California.

Q. What is your business?

A. I am in the manufacturing business. I am president of the Lumidor Manufacturing Company.

Q. How long have you been connected with that company? A. 14 years next February.

Q. What was the business of that company in 1939 and 1940?

A. Well, we were making lighting products as we do now; floor lamps, table lamps and fluorescent desk lamps, and in 1940 fluorescent fixtures for offices and factories.

Q. Do you know Mr. H. L. Hoffman who is in the court [281] room?

A. Yes, sir, I do.

Q. When did you first become acquainted with Mr. Hoffman?

A. I believe it was early 1939. Through a mutual friend I was introduced to Mr. Hoffman.

Q. Did Mr. Hoffman ever have any connection with the business of Lumidor Manufacturing Corporation?

A. Well, he acted in the capacity of sales agent for us from May, 1939, until the end of 1940.

Q. From May, 1939, to the end of 1940?

A. That is right.

(Testimony of Edward Cranston.)

Q. Will you please tell the Court in a little more detail as to how that started and exactly what was the relationship and what, if any, business was handled through that arrangement?

A. Well, in 1939 we were making floor lamps and table lamps, distributing them through the various power companies in the state, P. G. & E. and Southern California Edison, and Mr. Hoffman had a fluorescent desk lamp that he had brought in from the east. He brought it in to us in search of a western manufacturer to produce it, and he was interested in the sale of it. We as a company weren't too enthusiastic about it because it more or less conflicted with our power company business. However, Mr. Hoffman was so enthusiastic about the thing we did go in and make models and Mr. Hoffman took [282] over the sale of it on a commission basis, 10 percent commission on gross billings, and that carried on until 1940, through 1940. The thing started to grow, as I remember, and we asked Mr. Hoffman if he couldn't devote his full time to it, and he didn't want to do that. That is why it was terminated.

Q. Was Mr. Hoffman at any time in 1939 or 1940 a regular employee of the Lumidor Manufacturing Company?

A. No, he was never shown on our payroll records as an employee. We issued a commission check twice a month.

Q. The arrangement was solely on commission basis?

A. That is right, yes.

(Testimony of Edward Cranston.)

Q. Can you tell the Court from original records of your company what, if any, amounts of commissions were actually paid to Mr. Hoffman during the period you have stated?

A. Yes, I have it here.

Q. Will you please do so? Give us the original—the commencing dates first for the year 1939 and the last date in that year and the total amount for the year, if you can, Mr. Cranston.

A. The commencing date in 1940—

Q. Let's take 1939 first.

A. It was May 1, 1939. During the seven months of 1939 we paid Mr. Hoffman \$1,351.19. The closing date in 1940 is 12-15, and during that year, the whole year, we paid Mr. Hoffman \$3,532.85.

Q. Your reference to 12-15 means December 15, 1940?

A. That was the last check issued to Mr. Hoffman, yes.

Q. I see. Were there any other sums paid to Mr. Hoffman as commissions or for any other reason or service performed during that period?

A. No, that is all the checks we ever issued to Mr. Hoffman.

Q. Please tell the Court whether or not Mr. Hoffman was regarded on your records as a full time employee or on some other basis.

A. Well, on this ledger sheet I see a notation "Sales Agent", so he would not have been regarded as an employee. As I remember it, he paid his own expenses and financed himself out of his own funds.

(Testimony of Edward Cranston.)

Q. Do you know during those years, Mr. Cranston, whether Mr. Hoffman in fact had any other line, if I may refer to it as such, that he was interested in or promoting, or, I mean any other business that he handled during those years?

A. Yes, I knew he was handling the sale for Peerless Electrical Products. They were a local manufacturer of transformers. I don't know just when that connection was made by Mr. Hoffman, but as a matter of fact, we bought a lot of transformers through Mr. Hoffman.

Q. Was that work on behalf of Mr. Hoffman agreeable to you and your corporation? [284]

A. Oh, yes. As I say, we bought transformers from him.

Mr. Crouter: You may examine.

Cross-Examination

By Mr. Milliken:

Q. You say Mr. Hoffman brought this fluorescent lamp, is that right, to you?

A. He brought it to my attention. Of course, I had seen it, but as I stated, we weren't too interested in the thing.

Q. Did you continue to sell the lamp after the termination of Mr. Hoffman's services?

A. Oh, yes.

Q. Has it proven a successful line or unsuccessful?

A. Very successful.

Mr. Milliken: That is all.

Mr. Crouter: Nothing further.

The Court: You may be excused.

(Witness excused.)

The Court: Call your next witness.

Mr. Crouter: If your Honor please, I am sorry about the situation that has developed with respect to my next witness. He is a man who is pretty busy, and I told him I thought it would be safe not to come before 2:00 o'clock. I am sorry for that, because I had understood from Mr. Milliken that he would occupy the whole forenoon. There is only one [285] more witness, and it will not be over an hour, I am certain as far as I am concerned.

The Court: Of course, we are very busy as well as the witness. We try to keep busy. I don't think you are justified under the circumstances in telling your witness not to be here until 2:00 o'clock. Could you get in touch with him and have him come sooner?

Mr. Crouter: I believe he can make it by 1:30, if it is agreeable.

The Court: We will be recessed until 1:45.

(Whereupon, at 12:07 p.m., a recess was taken until 1:45 p.m. of the same day.) [286]

Afternoon Session, 1:45 p.m.

The Court: Proceed with the case on trial.

Whereupon,

S. W. GILFILLAN

called as a witness for and on behalf of Respondent, having been first duly sworn, was examined and testified as follows:

(Testimony of S. W. Gilfillan.)

The Clerk: Tell us your name, Mr. Witness, please.

The Witness: S. W. Gilfillan.

Direct Examination

By Mr. Crouter:

Q. Mr. Gilfillan, please tell the Court where you reside. A. Los Angeles.

Q. How long, approximately, have you resided in or around Los Angeles, California?

A. 57 years.

Q. What is your present business?

A. Manufacturing.

Q. Manufacturing what?

A. Electronic equipment, radar, aircraft mechanical parts and household radios.

Q. How long have you altogether been in the business of the manufacture of household radios?

A. Since 1922.

Q. What is the name of your present business firm? [287] A. Gilfillan Brothers, Inc.

Q. When was that incorporated?

A. 1917.

Q. Has that been a corporation continuously since that time? A. Yes.

Q. In 1942 and 1943 Gilfillan Brothers in active business in and around Los Angeles?

A. Yes.

Q. Please tell us as of the first part of 1942 where that business was located?

A. 1815 to 1825 Venice Boulevard.

Q. Is that still the business location?

(Testimony of S. W. Gilfillan.)

A. Yes.

Q. Now, going back to the period around the beginning of 1942, what was the nature of the business as far as the production was concerned?

A. The start of 1942—we were manufacturing radios, we were manufacturing aircraft precision parts, hydraulic parts.

Q. Was there any particular change in the nature of the business due to the entry of the United States into the World War on or soon after December 8, 1941?

A. Will you repeat that question, please?

Mr. Crouter: Read the question, please. [288]

(The question was read.)

The Witness: The military work was accelerated and the peace time work tapered off.

By Mr. Crouter:

Q. What is the accounting basis and what was the accounting period of the corporation for the year 1943?

A. Our accounting is on a fiscal basis, and the fiscal year closes May 31st.

Q. Have you produced and do you have with you any summaries and accounting records or summaries of records relating to the business of that corporation, I mean, Gilfillan Brothers, for the fiscal year 1943? A. Yes.

Q. Tell the Court what kind of an accounting record it is and who prepared it and so forth.

A. Well, the report I have is a report by Ernst & Ernst, accountants. That is it.

Q. Were you continuously with the corporation so that you knew what was going on during the fiscal year 1943? A. Yes.

(Testimony of S. W. Gilfillan.)

Q. What was your position, Mr. Gilfillan?

A. President.

Q. How long had you been president? When were you first made president of the corporation?

A. I started the business in 1917. [289]

Q. Since 1917. What in general did you do, what were your duties and so forth in a general way with respect to the operation of the business during the fiscal year 1943?

A. Well, to start out, to decide what type of business and the amount of business we would accept, to see that the business was carried on and deliveries were made and collections made and our contracts fulfilled.

Q. Now, during that fiscal year, do you have any summary relating to all of the customers or corporations with which Gilfillan Brothers had contracts which were in an active course of manufacture during that fiscal year? Do you have a summary of those?

A. I have a list here of our customers, prime customers, for the fiscal year ending 1943.

Q. You say "prime customers"?

A. Yes. I think that the small petty sales are not included in this or else they were lumped in somewhere.

Q. Now, referring to this document which relates to a period ended May 31, 1943, please tell the Court whether there are any subcontracts included in there. I mean, subcontracts with Gilfillan Brothers.

(Testimony of S. W. Gilfillan.)

A. All sales made from this list of customers were subcontracts, except those to the United States Army Air Force, the United States Army Signal Corps and the U. S. Navy.

Q. All except the fourth, fifth and sixth ones from [290] the bottom of the list, is that right?

A. Correct.

Q. Do you have additional data with you so that if we get into it, you could tell the Court approximately what amount or the exact amount of business done with each of those corporations and the total amount with all of them for that period?

A. Yes.

Mr. Crouter: I offer this list, if the Court please, at this time. I will follow this up with other testimony.

Mr. Milliken: I am going to ask the purpose of counsel in offering the list.

Mr. Crouter: Yes. The purpose, if the Court please, is as I will try to develop here, to show the business, the kind of business done in this fiscal year, and I will supplement it, if allowed to, with additional data on the calendar year basis to show the volume done during the calendar year 1943 and also to show the officer setup and compensation allowed to those officers, deductions by them and so forth as expenses of Gilfillan Brothers for the fiscal year 1943 as a basis of comparison with the Petitioner's position in this case.

Mr. Milliken: That brings up a very vital point, it seems to me, your Honor, and I should like to have the [291] opportunity of making a motion at

(Testimony of S. W. Gilfillan.)

this time, and my reasons in support of it. I object to counsel for the Respondent offering any evidence with respect to what any company did in the year 1943. My position is that here we have a contract, employment contract entered into on December 4, 1941. As I see it, the judicial inquiry should concern itself with first, was that a bona fide contract entered into, was it entered into at arm's length and was that contract fair on its terms when entered into in 1941. If we reach the affirmative with respect to each of those inquiries, then, under the Commissioner's own regulations, approved by the Secretary of the Treasury, which has the force and effect of law, because they have been unamended for years upon years, we are unconcerned when we get into 1943 if per chance the compensation should have been greater than even the parties contemplated in 1941 or greater than maybe a straight employment contract should be without an incentive basis.

The Court: Of course, you may be right on that contention as to the contract. As a matter of fact, I find this a rather interesting case in that regard, and I will somewhat look forward to your briefs on that question, but I don't think that I should at this time bar evidence on the other issue. It may well be that I would base the opinion, when I write it, upon that ground. I don't know, but I don't want to deprive myself now of evidence in case I should conclude that you are [292] wrong about that point. I think that it shows a very interesting question, but I won't sustain your motion at this time. I

(Testimony of S. W. Gilfillan.)

will hear this evidence, and if I should conclude that you are right, of course, there will be no object, and I don't even know that I would go into other evidence, or I might put it upon both grounds, but I don't think I should deprive myself of evidence in case I should conclude you are wrong on that. Your motion is overruled, and an exception will be allowed the Petitioner.

I take it that there is no objection because this is not the original instrument? You didn't mention that.

Mr. Milliken: No, I am sure that Mr. Gilfillan has a reputation in the community that he wouldn't bring something that wasn't true.

The Court: The instrument is admitted in evidence as Respondent's Exhibit F.

(The document above-referred to was received in evidence and marked Respondent's Exhibit F.)

[Printer's Note]: Respondent's Exhibit F is set out in full at page 477 of this printed Record.

By Mr. Crouter:

Q. Now, Mr. Gilfillan, have you made certain summaries and can you give or show to me a summary of the earnings and any profits or loss statement of the Gilfillan Brothers for the same fiscal year ended May 31, 1943? A. Yes.

Q. Tell the Court in general how that was prepared and [293] who prepared it.

(Testimony of S. W. Gilfillan.)

A. In 1943—our accounting department keeps our books. Ernst & Ernst audits our books. During the war time when so many war contracts were on, they were practically continuously in our place keeping our records in order and in balance with the different contracts.

Q. Now, does the summary which you hold in your hands reflect any amounts of receipts upon contracts—

Mr. Milliken: Now, if your Honor please, I think I should make the same objection Mr. Crouter did to me, and I thought he was valid in making it. Let's introduce the evidence without having him read from something. I don't know whether that is going in evidence or not.

The Court: Let's not more than identify the instrument before going into it.

Mr. Crouter: That is only half of my question, but I will withdraw that.

By Mr. Crouter:

Q. I will ask you to state to the Court what, if any, relationship there is between Exhibit F and the facts and figures shown in the document labeled "Profit and Loss Statement".

A. The list of customers in Exhibit F purchased the total amount of the annual sales of \$3,695,822.57.

Mr. Milliken: Excuse me, Mr. Gilfillan. Would you [294] read that over just a little slower, please?

The Witness: The amount?

(Testimony of S. W. Gilfillan.)

Mr. Milliken: Yes, the three million.

The Witness: \$3,695,822.57.

Mr. Milliken: Thank you.

Mr. Crouter: It may be, if the Court please, I had better get an identification number on this. I believe it will facilitate the proceeding.

The Clerk: Exhibit G.

(The document above-referred to was marked Respondent's Exhibit G for identification.)

The Court: I take it that the amount just named by the witness appears on this Exhibit G for identification?

Mr. Crouter: I believe it does, if the Court please.

By Mr. Crouter:

Q. Do the amounts you just read occur on Exhibit G for identification? A. Yes.

Q. Now, please tell the Court whether Exhibit G for identification reflects the total amount of net sales of the corporation for the same fiscal year.

A. No, the sales were decreased by \$200,000.00 due to renegotiations of sales prices and refund to the government of \$200,000.00.

Q. Then, it does reflect the final figure or sales after [295] that adjustment?

A. \$3,495,822.57.

Q. Now, Mr. Gilfillan, without reading any particular figures into the record here, please state whether all of the various items and the figures opposite such items are based upon the original

(Testimony of S. W. Gilfillan.)

books and records of Gilfillan Brothers for that period. A. They are.

Q. Were all of such entries made in the regular course of business? A. Yes.

Q. Was it the regular practice of your business and the regular course of business to keep such permanent records and have such entries made?

A. Yes.

Q. Please tell the Court whether this is a correct summary of such records and figures.

A. Yes, it is.

Mr. Crouter: I offer Exhibit G for identification in evidence.

Mr. Milliken: No objection in line with your Honor's ruling.

The Court: Respondent's Exhibit G is admitted in evidence.

(The document heretofore marked Respondent's Exhibit G was received in evidence.)

[Printer's Note]: Respondent's Exhibit G is set out in full at page 479 of this printed Record. [296]

The Court: You may have, if you wish, an exception to this entire line of testimony.

Mr. Milliken: No, your Honor, I quite agree with your Honor's ruling, but I felt because of my strong conviction on the question of law I should make the motion I did for the purpose of the record.

The Court: Very well.

(Testimony of S. W. Gilfillan.)

Now, I am wondering this: Mr. Crouter very carefully made the usual proof of the authenticity of this instrument, of its being made up in the usual course of business and so forth. Judging from your statement a moment ago, Mr. Milliken, that you were not in any doubt about this other exhibit, I wonder if it is necessary to go through that matter and that fine type of proof with each instrument.

Mr. Milliken: It will be perfectly permissible with me, that is, so far as counsel is concerned, subject to your Honor's approval, that he need not go into that as far as I am concerned if Mr. Gilfillan states from the witness stand that it is an accurate reflection of his records.

The Court: That is all I had in mind.

Mr. Crouter: Thank you.

By Mr. Crouter:

Q. Mr. Gilfillan, please tell the Court what the business of the corporation was after the date May 31, 1943, in a general way, and how it corresponded with respect to the [297] business done from January 1, 1943, down through May 31, 1943, with respect to the volume, particularly volume of sales.

Mr. Milliken: I object to that, your Honor, unless counsel limits it to December 31, 1943.

Mr. Crouter: I thought I had, through the end of that calendar year.

Mr. Milliken: You had not so stated.

Mr. Crouter: I am glad to have that corrected and included.

(Testimony of S. W. Gilfillan.)

The Witness: For the calendar year the total sales amounted to \$5,625,275.00.

By Mr. Crouter:

Q. And, as I understand it—

A. With that—

Q. Go ahead.

A. That figure is prior to a reduction of \$200,000.00 in the sales due to renegotiations.

Q. Now, as I understand it—

Mr. Milliken: I know you are trying to get the record right. I want to be sure I am clear. Are you taking now from January 1st, Mr. Gilfillan?

The Witness: Yes, sir.

Mr. Milliken: And taking it to December 31st?

The Witness: The last figure is our sales for the [298] full calendar year for 1943.

Mr. Milliken: That is assuming you were on the calendar year basis?

The Witness: No, I just picked the sales off from the two fiscal years' statements.

Mr. Crouter: Mr. Milliken, I believe I can develop this if you will just give me an opportunity.

Mr. Milliken: Well, I object, then, to not having the best record. I am sorry that I have to make that objection.

By Mr. Crouter:

Q. Mr. Gilfillan, may I see a summary that you just read to me?

A. One of these exhibits (indicating)?

Q. The total five million dollar figure. Do you have that down here? A. Yes.

(Testimony of S. W. Gilfillan.)

Q. Now, please refer to any accounting books or records or summaries which you have with you showing the exact figures, if there are any, that are included making up the total of \$5,625,275.00.

A. The exhibit you have looked at is a statement given to me by the accounting department in total round figures.

Q. Your own?

A. It is not broken down monthly, and I have taken [299] those figures from the chief of our accounting department.

Q. Do you have any accounting records which do break down the sales figures month by month?

A. Oh, yes. Are you asking me if I have them with me?

Q. Yes. A. Yes.

Q. Do you have such figures for the entire calendar year 1943? A. Yes.

Q. So that a person could examine and see the total for each month, and would they show the companies from which such amounts were received each month, each particular company going into each figure?

A. The figures will show the total for each month and the customer that the billing was made against by months.

Q. In general, would those be the same identical customers as shown by Exhibit F in evidence?

A. Exhibit F placed in evidence is the customers in the fiscal year closing May 31, 1943. When we consider the customers for the calendar year, the

(Testimony of S. W. Gilfillan.)

list will vary undoubtedly due to the fact that seven months of the calendar year 1943 was on this statement. The other five months would come off of a different list of customers.

Mr. Crouter: May I have this document marked for identification? [300]

The Clerk: Exhibit H for identification.

(The document above-referred to was marked Respondent's Exhibit H for identification.)

By Mr. Crouter:

Q. Now, what, if any, relationship is there between H for identification and any authentic accounting records which are available to you here in Court? A. They are identical.

Mr. Crouter: I offer Exhibit H for identification.

Mr. Milliken: It has already been offered for identification.

Mr. Crouter: I mean I offer it in evidence at this time.

Mr. Milliken: Then, I object on the grounds it is not the best evidence.

Mr. Crouter: Because the books and records are not here?

Mr. Milliken: I don't know about this breakdown, whether Mr. Gilfillan has gone through all those months or not month by month.

The Court: Of course, the objection will have to be sustained. The summaries are very valuable in Court, but of course, they have to be substan-

(Testimony of S. W. Gilfillan.)

tiated or potentially substantiated by the original records being in Court for purposes of cross-examination. The objection will be sustained. [301]

By Mr. Crouter:

Q. Now, Mr. Gilfillan, please tell the Court who the other officers of Gilfillan Brothers were, if there were any, for the fiscal year and during the calendar year 1943.

A. J. G. Gilfillan was vice-president; I. B. Sparks, vice-president; A. J. Brown, vice-president; I. Kemp, secretary and treasurer.

Mr. Milliken: Pardon me, Mr. Gilfillan. I want to write this and I can't write that quick. I have gotten as far as A. J. Brown, vice-president. What was the next one?

The Witness: I. B. Sparks. Did you get that?

Mr. Milliken: Yes.

The Witness: I. Kemp, secretary and treasurer and J. H. Miles, vice-president.

By Mr. Crouter:

Q. What was Mr. Miles' position?

A. Miles was production radar and electronics.

Q. Now, Mr. Gilfillan, could you proceed in your own case and with these other officers whom you have mentioned and advise the Court with respect to the amount of compensation, if any, that such officers received from Gilfillan Brothers during 1943? I say, are you prepared, first? Just answer yes or no. A. Yes.

Q. Do you know of such matters of your own knowledge? [302] A. Yes.

(Testimony of S. W. Gilfillan.)

Q. Please tell the Court in your own case what your total compensation was from Gilfillan Brothers for the entire calendar year 1943.

A. The salary was \$32,432.40, and that was the total compensation.

Q. I don't mean to confuse the accounting periods now. Is that your figure for the fiscal year or have you been able to analyze that?

A. It would be just the same. I have never changed my salary.

Q. It has been the same? A. Yes.

Q. How long has it been the same?

A. Oh, with a slight fluctuation for 15 or 20 years.

Q. Now, with respect to Mr. Sparks, will you tell the Court what his total compensation was from the corporation during 1943? A. \$14,999.92.

Q. What was Mr. Brown's total compensation for the year 1943? A. The same, \$14,999.92.

Q. What was Mr. Kemp's total compensation?

A. Miss I. Kemp.

Q. Excuse me. [303] A. \$4,252.22.

Q. What was Miles' compensation?

A. \$8,400.08.

Q. Please tell the Court a little more than we have indicated so far the duties of Mr. Sparks for the corporation for the year 1943, and make it on the calendar year. Just tell us as nearly as you can recall exactly what he did in a general way.

The Court: What was Sparks' position?

Mr. Crouter: Yes.

(Testimony of S. W. Gilfillan.)

The Court: What was Spark's position?

The Witness: Vice-president.

The Court: Vice-president?

The Witness: Sparks had control of production, flow of materials and to a certain extent contact with customers in the aircraft division of our business, the mechanical production of hydraulic parts and so forth for military planes.

By Mr. Crouter:

Q. First, were all of these full time officials or officers of the company? A. Yes.

Q. Now, in Mr. Brown's case, what did he do, if anything?

A. Brown was the contact man with the accounts and gave Sparks instructions as to priorities and checked on the [304] production records and costs in the aircraft division with the result of having knowledge to guide the department in an overall position.

Q. I notice Mr. Kemp's position was secretary-treasurer. Please tell the Court in a general way of the nature of the work that he actually did during the calendar year 1943.

A. I. Kemp is a lady.

Q. Excuse me.

A. Her duties were the usual duties of a secretary and treasurer. Under her came the credit manager. She verified bank balances and kept the minutes of the meetings and called directors' and stockholders' meetings and so forth.

Q. What were the duties of J. H. Miles?

A. He was production and material control, planning in the electronic division of our business.

(Testimony of S. W. Gilfillan.)

Q. Will you tell the Court with respect to the various officials that we have mentioned here, approximately how long they had been with the company in 1943, or, you can make it as of today and we can compute the time, of course.

A. Sparks came to work in 1920, Brown came to work about 1930, J. H. Miles came to work about 1930, I. Kemp came to work about 1920.

Q. Now, with respect to Mr. J. G. Gilfillan. About how long has he been with the company?

A. He was one of the original brothers that started the [305] organization.

Q. You mean since— A. 1913.

Q. 1913. Please tell the Court what, if any, dividends were paid as such during the year 1943, or for that year, and I will make that on your fiscal year basis. That would be for the fiscal year ended May 31, 1943.

A. Total dividends of \$22,354.38.

Q. Now, please tell the Court whether any of the officers whom you have named were also stockholders of the corporation, and if so, indicate the approximate percentage of stock owned by each. Start in your own case, please. I would like to have that also for the year 1943.

A. S. W. Gilfillan owns 10,933.95 parts of common stock.

Q. Well, what was the total issued and outstanding? Do you have that? A. Yes.

Q. Do I understand that is ten thousand plus shares?

(Testimony of S. W. Gilfillan.)

A. The total number of shares outstanding was, common, 29,833.5.

Q. During 1943 was there any preferred stock also outstanding? A. Yes.

Q. Are you prepared, Mr. Gilfillan, so you could tell [306] the Court in percentages so that they would be absolutely correct or substantially correct, and tell us the percentage of common and preferred stock of each officer which such officer had in 1943?

A. Well, I can give you the exact amounts and it will just take a second here.

Q. Suppose you do it.

A. J. G. Gilfillan had one share of common and fourteen hundred shares of preferred; A. J. Brown, seventy-nine shares of common; I. B. Sparks had one hundred thirty-six shares of common and two of preferred; J. H. Miles had none, and I. Kemp had forty common.

Q. Now, that covers all of the officers you named, I believe. A. Yes.

Q. How much total preferred stock was outstanding, if you know? A. Yes. 4,480 shares.

Mr. Crouter: You may examine.

Cross-Examination

By Mr. Milliken:

Q. Mr. Gilfillan, it is in evidence in this case as exemplified by Exhibit 21 attached to the stipulation of facts, the earnings and gross income of the Mission Bell Radio Company. You will observe the first year is 1932. You give [307] the various sales and we come down to the year 1941 where

(Testimony of S. W. Gilfillan.)

they had a gross income of \$29,763.82. The next column to the gross income shows the net income. You will observe for 1932-33 they had losses, slight income down to the year 1939, had a loss in 1939 of \$8,275.58, a loss in 1940 of \$11,891.50 and in 1941 a loss of \$15,470.54.

Now, if we will turn back to Exhibit 9 also in the same stipulation of facts, it shows that at June 1st in the first column, 1941, they had a red figure or a deficit in earning surplus of \$19,183.25. By December 31, 1941, they had a deficit in earned surplus of \$48,786.43. A. Right.

Q. You may or may not have known of those facts. Did you?

A. I was not aware of their profit and loss statement.

Q. It is also in evidence in the case, Mr. Gilfillan, that in December, 1941, the company not only being in a deficit position was in extreme financial difficulties? A. That is right.

Q. Through a loss from these figures. It also has been shown in evidence by the other witness that they had an insignificant but small inventory of goods on hand. It has been shown by the evidence that they had a license from the Radio Corporation of America calling for a minimum guarantee of \$5,000.00 per year. It has also been shown in evidence that [308] they were in default with respect to the payment of that minimum license. It has also been shown in evidence that if that license was in default and they didn't pay it, they could lose their license.

(Testimony of S. W. Gilfillan.)

Now, that is the situation that we find ourselves confronted with in December, 1942, of Mission Bell. You had known of the company here, of course?

A. For many years. I built all their radios up to the end of 1939.

Mr. Crouter: I take it you meant December 31, 1941?

Mr. Milliken: Thank you. I am concerned in all these questions with 1941.

The Witness: That is correct.

By Mr. Milliken:

Q. Now, it has been shown from the evidence that Mr. Hoffman became acquainted with this company in December of 1941, and was able to get some financial backers to go into it with him. He bought up all the stock of Mission Bell in December, the first few days of December, 1941, for a nominal consideration, I have forgotten the amount.

About how much was that all told, Mr. Hoffman?

Mr. Hoffman: \$11,750.00.

By Mr. Milliken:

Q. He agreed to pay for the stock, all of the stock, to pay for that on a basis of \$100.00 a month, and if at any [309] time he wanted to throw it up prior to in February of 1942, why, he could throw it up and the deal was off. He got these financial backers to get in who likewise agreed to advance, one backer \$4,000.00, another \$4,000.00 and Hoffman was going to put in \$2,000.00 or \$10,000.00 to start out.

(Testimony of S. W. Gilfillan.)

It is also in evidence that the other financial backers were men of financial means in this community. They were prepared to put in more if necessary. It is also in evidence that these gentlemen did not desire to pay a large salary because the corporation had insufficient working capital, but rather to put a contract on an incentive basis, that is, if they made money, pay a salary, if they didn't make money, the corporation wouldn't be further obligated.

To that end they agreed that Hoffman would take a nominal salary and in addition thereto he would be entitled to 3 percent of the gross sales of the corporation. That was to be his entire compensation.

Also it is in evidence, and very important, I think, in propounding this hypothetical question to you, Mr. Gilfillan, Mr. Hoffman owned only 50 percent of the stock, those that were financially backing him owned 50 percent, so Hoffman didn't own control of the corporation so far as stock outstanding was concerned.

Now, bearing in mind the financial condition that I have shown you where sales dropped down to \$29,000.00 in [310] 1941—it is further in evidence they had a cost of sales of \$30,000.00, so they lost even a thousand dollars on sales—in your opinion, would that be a fair basis for compensation for a man who was to be the general manager and director of this corporation, to take over and try to operate this business?

(Testimony of S. W. Gilfillan.)

Mr. Crouter: Now, before answering that, Mr. Gilfillan—

If your Honor please, I very respectfully object to the question and I will state the reasons and grounds. I do not object because the man is not a qualified or experienced man in the radio electronics field. I find it a little bit embarrassing to object to such testimony by a witness I have called, but I object to it on the ground that it is, first, not proper cross-examination. I have assumed that he is making the witness his own for his own purpose, and I object to it because, in my opinion, it is very far from a proper hypothetical question to propound to his own witness. It has not been shown that this witness is familiar at all with the stipulated facts here. I very respectfully, Mr. Milliken, object on the ground that even in this excellent summary of yours, you have not included enough of the real substantial elements in this case so that Mr. Gilfillan would have a proper conception of the facts before his Honor in this case. [311]

For instance, it is my recollection that there was a statement by someone on the stand that the payments under the R.C.A. license had been waived and were no longer required. I believe there is a conflict on that.

Now, counsel has stated his idea of these minimum payments to Mr. Hoffman—

Mr. Milliken: Will you let me interrupt you with respect to the first point?

Mr. Crouter: Yes.

(Testimony of S. W. Gilfillan.)

Mr. Milliken: Now, under the license, Mr. Hoffman categorically testified that it had not been waived in 1941, but he did testify that after the freezing order on radios in April, 1942, and after that R.C.A.'s practice generally was to waive them because we were in the war.

Mr. Crouter: Now, going further with the objection, helping to illustrate the point that Mr. Milliken may have one understanding and one recollection of the record and I may have another—the reporters, of course, have the most accurate transcript of what has transpired—but going further with my objection, counsel has referred to the very nominal salary of Mr. Hoffman. Now, I don't know, certainly Mr. Milliken right now, certainly your Honor right now does not know whether nominal salary to Mr. Hoffman means the same to Mr. Gilfillan. How is Mr. Gilfillan to know whether that is \$100.00, \$1,000.00 or \$10,000.00? That is just a good example [312] in my opinion of my point, that this is not a proper hypothetical question, and it does not sufficiently, even in a general way, comprehend the vital facts of the case so that Mr. Gilfillan could make a good responsive answer which would be helpful to the Court in deciding this question.

The final ground is that it comes very close to usurping the functions of the Court with respect to the point in issue, and that is, what is reasonable in this case. I believe the Court is much better able to determine that even without an expression

(Testimony of S. W. Gilfillan.)

of opinion of this witness based on the inaccurate summary of Mr. Milliken.

Mr. Milliken: Well, if your Honor please, I think counsel's remark is well taken so far as salary is concerned, and I will supply that deficiency so that the witness may have that.

The Court: Of course, an answer to a hypothetical question, particularly one of opinion evidence is worth just as much as the basis laid. At least, it seems to me that that follows, and if your basis is not as broad as you wish, I will permit you to broaden it if you wish to interrogate the witness further. Before you do that, however, I want the reporter to read me the latter part, you might say the vital part of Mr. Milliken's question after he had summarized the facts. Read me the latter part of his question.

(The question was read.) [313]

The Court: Very well. Now, as I stated before, if you wish to broaden your basis of your hypothetical question, I will give you that opportunity. I think, however, the first thing that I should devote my attention to is to whether this is proper cross-examination. It seems to me it isn't unless he makes this witness—he has asked nothing about this company, he was asked about his own company, and it seems to me that this is not proper cross-examination.

Mr. Milliken: Well, your Honor, it seemed to me the fair inference, and I am sure it is not difficult for any of us to divine what Mr. Crouter has

(Testimony of S. W. Gilfillan.)

in mind by calling Mr. Gilfillan. He is going to say that here is a company that does the business which he had in mind, which the officers received the compensation which he had in mind, which the officers performed the duties which he had in mind, and therefore that is a reasonable standard for your Honor to follow on the basis of what would be a reasonable salary in the case before you.

The Court: You point out that he was attempting to set up a comparative?

Mr. Milliken: Yes.

The Court: And if the mere fact that he was setting up a comparative by asking this gentleman about his own company, if that is sufficient to make this proper cross-examination, when you ask him a hypothetical question based upon the [314] Petitioner's company and the facts that you set forth, then, of course, you are right. But I don't believe that is sufficient to make this proper cross-examination. I think you would have to make this man your own witness for asking him a hypothetical question as to the Petitioner company, and I will so rule.

Mr. Milliken: I should like to ask if I am correct in my assumption of the purpose for which Mr. Crouter offered Mr. Gilfillan's testimony in chief.

Mr. Crouter: I agree that the purpose is as stated by the Court.

Mr. Milligen: Then I wish to except your Honor's ruling.

(Testimony of S. W. Gilfillan.)

The Court: Take your exception. You may be right. I don't think you are.

Mr. Milliken: Then I will call Mr. Gilfillan as my own witness and I will propound this hypothetical question to him.

The Court: Well, do you need to repeat it except what you wish to add? I don't require you to repeat your question. You can go ahead and add anything you wish to it, but I see no object in going back and repeating it. We will consider that the question has been asked of him as your own witness.

Mr. Crouter: That is entirely agreeable to me.

(Witness withdrawn.) [315]

Whereupon,

S. W. GILFILLAN,

recalled as a witness for and on behalf of the Petitioner, having been previously duly sworn, was examined and testified further as follows:

Direct Examination

By Mr. Milliken:

Q. I wish to add to that statement of mine, Mr. Gilfillan, that Mr. Hoffman was paid a salary of \$8,000.00 in 1942 and \$8,800.00 in 1943, a fixed salary. A. And three percent?

Q. And three percent.

The Court: Now, you are asking for an answer with that addition?

Mr. Milliken: Yes, I am.

The Witness: I think—

(Testimony of S. W. Gilfillan.)

The Court: In all fairness, now, I don't think cases ought to go off on technicalities.

Are you objecting to this question as reframed?

Mr. Crouter: Yes, I stand by my objection, if the Court please.

The Court: I really shouldn't have to put it that way, but nevertheless I don't think anyone wants this case to go off on a mere fact that an objection was not made after it was once made, and that is the reason I presumed to ask whether there was a question. The objection is overruled, exception allowed, and as I said before, the answer to a hypothetical question, in my opinion, is worth as much as the basis laid. If I should conclude that you didn't have the full proper basis, I will have to consider that. Answer the question. [316]

The Witness: I think it was a good contract for the corporation.

By Mr. Milliken:

Q. You think it was a good contract for the corporation? A. I do.

Q. You mean you think it is a fair and equitable basis for compensation?

A. At that particular time.

Mr. Crouter: I object on the ground that it is leading and counsel is doing the testifying.

The Witness: Yes—

The Court: Just a moment, Mr. Witness. That is leading, of course.

Mr. Milliken: Well, he says it was a good contract, and I think "good" ought to be defined.

By Mr. Milliken:

(Testimony of S. W. Gilfillan.)

Q. Then I will ask you what you mean by "good"?

Mr. Crouter: May I have the last question and answer stricken?

Mr. Milliken: That is quite proper, I agree to that.

The Court: Strike the last question and answer.
By Mr. Milliken:

Q. What do you mean by "good", Mr. Gilfillan?

A. Fair and equitable. [317]

Q. To the corporation? A. That is right.

Q. And to its stockholders as well?

A. Well, that is the stockholders.

Q. Mr. Gilfillan, if Mr. Crouter asked it, it slipped my mind. Were you paid \$32,432.40?

A. As salary.

Q. Salary. Your brother J. G. Gilfillan?

A. Ten thousand—wait a minute. It is on that. I will get it for you.

Q. I don't believe it is on this. I didn't get that figure.

A. I don't think anybody asked for it.

Q. I don't believe Mr. Crouter asked it.

Mr. Crouter: I am sorry. I intended to.

The Witness: The salaries paid in 1943. \$10,500.00.

By Mr. Milliken:

Q. Mr. Gilfillan, have you added up the entire salaries of yourself, J. G. Gilfillan, Sparks, Brown, Kemp and Miles? A. Yes.

Q. What does the total amount to?

(Testimony of S. W. Gilfillan.)

A. \$85,796.32.

Q. Now, Mr. Gilfillan, addressing your attention to Exhibit G of Respondent, I noticed here you have "general and administrative, \$313,030.33." [318]

A. That is right.

Q. I find, if my calculations are right, that that is 8.66 percent of gross sales.

A. Well, do you want me to accept your figure?

Q. No. If I am right about that, general and administrative expense was \$313,030.33.

A. 8.47 percent.

Q. That is what it was, 8.47 percent. I was off on a percentage basis. I don't know, but the figure will speak for itself.

Now, in the exhibit in this case, the case of the Hoffman Radio Company, Exhibit 2, we find that for the year 1943 they had a general and administrative expense of \$116,861.75, or 6.3 percent of the gross sales, or there being a differential between yours and theirs of the amounts indicated.

It is also in evidence in the case pursuant to a stipulation, that the net sales of the Hoffman Radio Corporation for the year 1943, after renegotiations, were \$1,787,850.14. Do you believe that your company operated as economically as possible so far as general and administrative expenses were concerned in the year 1943, Mr. Gilfillan?

A. Yes. I would like to state this: That this 8.47 percent is for five months of the year. The next fiscal year had a percentage of 5.52 percent, which took in seven [319] months of that calendar year.

(Testimony of S. W. Gilfillan.)

Q. Yes. Well, it is true, isn't it, Mr. Gilfillan, as a businessman, that the larger your sales, the less will be your general administrative expenses?

A. Generally speaking. Of course, it all depends upon the nature of the business.

Q. Yes. But that would be true in your business, wouldn't it? A. Yes.

Q. Well, the point I am bringing out is that you had sales for the fiscal year ended May 31st after deductions for renegotiations of \$3,695,822.57 as against sales after renegotiations of Hoffman Radio of \$1,787,850.24, and there is that disparity. Would that impress you as to whether or not the general salaries and compensations paid in the Hoffman Radio Company in 1943 would be reasonable or unreasonable?

A. It really doesn't give me any basis to pass an opinion, because the business may have very high general and administrative expenses in one department and very low in another, and it depends upon a breakdown of Hoffman's business and what department of his business was operated. The administrative expenses under military contracts went way down.

Q. Well, your administrative expenses here is for the [320] overall, isn't it, Mr. Gilfillan?

A. Yes, for that fiscal year. If you want to ask me if I think mine is efficient, the answer is yes, but I don't know anything about Hoffman's business.

Q. Well, if it was less than yours—

(Testimony of S. W. Gilfillan.)

A. I don't think that means a thing, to tell the truth. I don't think it means a thing. Some businesses can be run with practically no general overhead, percentagewise. The records will prove that. For instance, all our government contracts were based upon the auditors' statements of military auditors, and the general administrative fluctuated from 6 percent down to 3½ percent in our business during the war. Now, we were no more efficient in 1945 than we were in 1943, so if I don't know the condition of Hoffman's company, I can't give you an opinion.

Q. Well, I think the figures speak for themselves. Now, are you acquainted with the salary freezing date? A. No, I am not.

Q. You don't think—

A. I knew they froze salaries sometime during the war.

Q. It was in October, 1942, if I be not in error.

A. Probably. I am not from memory very conscious of when it happened.

Q. Did you make any request to the Salary Stabilization Board to increase any salaries in your place? [321]

A. Any salaries of officers or any salaries?

Q. Of officers. A. Yes, we did.

Q. Officers, Mr. Gilfillan?

A. Not to my knowledge.

Q. Not to your knowledge. Not after October, 1942, you made no request to increase officers' salaries?

(Testimony of S. W. Gilfillan.)

A. Until 1946 when the war was over we raised Joe Miles' salary.

Q. Mr. Gilfillan, what was the business that you had been engaged in prior to December of 1941?

A. Before Pearl Harbor?

Q. Prior to Pearl Harbor, yes.

A. Well, I said I was in the radio business. For how many years, for what year?

Q. Take it back for a year and longer than that.

A. One year?

Q. One year, for example.

A. Radio business and aircraft precision parts for military purposes.

Q. What percentage of your business prior to Pearl Harbor or for a year back would relate to aircraft precision parts and what part would relate to commercial radios?

A. Well, I haven't that record here. Do you want my estimate? [322]

Q. Your best judgment.

A. I would say in 1941, I think for the calendar year 1941 the military work was 75 percent of our business.

Q. Seventy-five percent of your business. In other words—

A. Estimated, that is, in estimated business.

Q. When did you have a fire at your place?

A. 1940.

Q. When did you rebuild your place?

A. During the first half of '41.

Q. During the first half of '41? A. Yes.

Q. You built a precision plant, didn't you?

(Testimony of S. W. Gilfillan.)

A. Well, we more or less reproduced the same plant because what we had to do was to rebuild all our machine tools and rebuild the building, so it was the same type of work, yes.

Q. That is right. You were a fully intergrated concern as of December, 1941?

A. Fully integrated. I wonder if I understand what that means?

Q. Yes. You had your radio business, you had your precision parts business, you were a functioning company at December, 1941? A. Yes.

Q. How long before that had you been in that position? [323]

A. You mean after the fire—are you talking about that time?

Q. Before.

A. Well, I would say that we were in that position from the time we started our business in 1913.

Q. Fine. Had you ever suffered any losses?

A. Financial losses in bad years?

Q. No, business losses. Had the business operated at a profit or loss?

A. On the long range it had. It had bad years and good years.

Q. I see. What would your profit from operations for the year 1941 be? A. 1941?

Q. Just in round figures?

A. Let's see if I got that.

The Court: You mean fiscal year or calendar year?

Mr. Milliken: The fiscal year.

(Testimony of S. W. Gilfillan.)

By Mr. Milliken:

Q. I suppose you have always been on the fiscal year basis? A. That is right.

Q. That would be May 1, 1941.

A. I haven't those figures with me.

Q. Could you give us just an estimate which you think [324] would be fairly accurate, Mr. Gilfillan?

A. That would be the end of the fiscal year '42?

Q. May 31, 1941.

A. Oh, we had a heavy loss that year. That was the year of the fire.

Q. I see.

A. I forget what our loss was, but it wiped out all our quick assets by the time we built the building and got our machinery set up, and we were starting from scratch at that point.

Q. But it was a loss from the fire?

A. Yes. We were on an operating basis prior to the fire.

Q. Prior to the fire on an operating basis. Then what would you say your profit from operations was for the fiscal year ended May 31, 1942?

A. From memory it seems to me that it was \$86,000.00.

Q. \$86,000.00. Was that before or after taxes?

A. After taxes.

Q. After taxes? A. Yes.

Q. Now, the total number of outstanding preferred stock was 4,480 shares, Mr. Gilfillan, as of 1943? A. 4,480 shares.

(Testimony of S. W. Gilfillan.)

Q. Now, you owned how much of the preferred stock? [325] A. 124 shares.

Q. Give me the other stockholders of the preferred.

A. Well, I haven't got a list of my stockholders here. I just brought the list of shares owned—well, maybe I have. All right, I have got them.

Mr. Crouter: If your Honor please, I object to that on the ground of its immateriality and irrelevancy unless counsel can show me otherwise. I don't see that it has any real bearing on the case.

The Court: Objection is overruled. I think it has some bearing.

The Witness: Let's see. I think I got them. Well, I don't seem to have them, I am sorry to report. I will look through here in a minute, and I will see. I have them for the officers—no, I don't have them.

By Mr. Milliken: Q. Do you have it for the common stock, Mr. Gilfillan?

A. No, I just have the stock owned by the officers of the company.

Q. Well, what percentage of the common stock do you own?

A. I own 10,933.95 out of a total of 29,833.5.

Q. Now, is the 29,833.5 issued and outstanding in 1943? A. Yes.

Q. How much does J. G. Gilfillan own? [326]

A. J. G. Gilfillan owns 1½ shares of common and 1400 shares of preferred.

Q. Is he a relative of yours?

(Testimony of S. W. Gilfillan.)

A. He is my brother.

Q. I. B. Sparks?

A. I. B. Sparks—in 1933 he owned 100——

Q. You mean 1943?

A. He owned 136.85 common, 2 preferred.

Q. A. J. Brown?

A. 79 common, none preferred.

Q. I Kemp?

A. 40 common, none preferred.

Q. J. H. Miles? A. J. H. Miles, none.

Q. I have named, have I not, all of the officers of the corporation? A. Yes.

Q. Who were the directors of your corporation in 1943? A. S. W. Gilfillan——

Q. That is yourself?

A. Yes. Edna Miles Gilfillan, that is my wife; J. G. Gilfillan, that is my brother; I. Kemp, she is the secretary and treasurer; Harvey Mudd, known here in Los Angeles quite well——

Q. Did you have a man by the name of McDermott employed [327] by you in the year 1943?

A. Yes.

Q. What was his position?

A. Purchasing agent of electronic parts.

Q. Did you have a man by the name of Forrest with you?

A. Jack Forrest, purchaser of other materials besides electronics.

Q. Did you have a man by the name of Howell?

A. Les Howell, contracting officer with military personnel.

(Testimony of S. W. Gilfillan.)

Q. A man by the name of Nevins?

A. Nevins, yes, personnel.

Q. Personnel. Miles, he was in charge of production?
A. Electronic production, yes.

Q. A man by the name of Ailsworth?

A. Yes.

Q. What was his position?

A. Oh, he was assistant buyer, I think, under McDermott.

Q. Brindley? A. Ross Brindley, yes.

Q. What did he do? A. In '43?

Q. Yes.

A. I wouldn't know. He is one of my old employees, been there for 25 or 30 years, and he didn't have an important [328] position around the plant there, and his salary was \$90.00 a week. I know that.

Q. Do you have any other brothers in your business besides the one that we have mentioned, J. G. Gilfillan?
A. No.

Q. That is your only brother?

A. That is my only brother.

Q. What did your brother do?

A. My brother in peace times took care of our foreign business. When the war effort came on, he pinch hit for anybody that wanted him to do any kind of a job.

Q. Did you have a man by the name of Lindsey?

A. Oh, yes.

Q. What did he do?

A. He is an electronic engineer.

(Testimony of S. W. Gilfillan.)

Q. Who were your top engineering men?

A. Homer Tasker, or chief engineer, and William Lindsey was assistant.

Q. How about Wolcott?

A. Fred Wolcott also was very—was a very good engineer.

Q. How about Myers?

A. Bill Myers, yes, he is an engineer.

Q. Was he considered a good engineer?

A. Yes. [329]

Q. Now, if I may go back and get some of the salaries of these men, if you can remember them, Mr. Gilfillan.

A. I will do the best I can, if that is satisfactory.

Q. McDermott?

A. McDermott in 1933—

Q. No, not 1933.

A. 1943. I keep saying '33 and mean '43. Oh, I really don't know what his was.

Q. Forrest?

A. Forrest, he would be getting the same as McDermott, and Howell would be getting the same, and I think it was at that time around \$125.00 a week.

Q. Nevins?

A. He would be around a hundred and ten a week.

Q. Lindsey?

A. Lindsey, \$12,000.00 a year.

Q. Wolcott?

(Testimony of S. W. Gilfillan.)

A. Wolcott, \$10,000.00 a year.

Q. Myers?

A. Bill Myers, \$125.00 a week.

Q. Do you have any other ten or twelve thousand engineers?

A. Yes, our chief engineer. He came to us from Paramount. He was chief engineer of Paramount, and we paid him \$15,000.00 a year; Homer Tasker. Now, I would like to [330] explain about those engineers. The Radiation Laboratory during the war had a development called GCA, ground control approach, and the Army and Navy use it completely as the only aid of getting planes down. We picked that up in the early part of 1942, and at the time we picked it up and proceeded to develop it further and to go into production and get them into the military hands during the war, we took over a group of engineers which Radiation Laboratory had called to their headquarters at M.T.I. there in Boston, and among them was Tasker. Now, Bill Lindsey was a very excellent physicist who was in the moving picture industry, and I am sure he came to us at a sacrifice of his salary.

Fred Wolcott came to us in '35 or '36 and developed a television receiver which we went on the market with before the war, and was a very capable engineer, and was well worth the money. That explains why that high bracket went in on those fellows, just take the engineers and make them.

Q. How many engineers would you say that you had in sum total, if you can approximate it, Mr. Gilfillan?

A. In the year '43?

(Testimony of S. W. Gilfillan.)

Q. Yes.

A. I would say that we started out in '42, engineers and technicians and draftsmen—laboratory, I take it you mean?

Q. Yes. [331]

A. The entire laboratory, well, probably 200.

Q. 200? A. That again is an estimate.

Q. Yes. Was Emandofer working for you in 1943? A. Yes.

Q. What was he doing in 1943?

A. He is just kind of a roustabout. He took care of our service. You see, our plant went into close secrecy prior to 1943, and we had certain obligations, to repair radios and refrigerators for customers on the outstanding, and we opened up a service department on Venice Boulevard on another premise to segregate the business from our secret work. Emendofer took charge of it. . .

Q. What had he done before that?

A. He came to us right after the first war, and he was a radio sales—first of all, he was an ignition parts salesman, then he was a radio salesman, then he was a man who contacted these manufacturers of radio chassis who couldn't get a license and we made their chassis for them. Among them was your Mission Bell outfit.

Q. When did he leave your employ?

A. I think about '44-'45, I imagine.

Q. Do you know what you were paying him when he left?

(Testimony of S. W. Gilfillan.)

A. Yes. I always tried to pay him well. He had been a good man and he was ill. We kept him for a year or two when [332] he was ill. Probably about \$500.00 a month.

Q. Did you ever prior to 1943 have any salesmen on an incentive basis?

A. Any salesmen—

Q. Do I make myself clear on that, on an incentive basis?

A. You are talking about commercial work?

Q. Yes.

A. Many times during the years we have been in business we have tried the incentive method and then we have tried the flat salary basis, and different periods of business—one works better than at another time. Yes.

Q. Well, back in 1926, '27 and '28, McNealy in Kansas City and McConnell in New York had such a plan, didn't they?

A. I think probably they did. They were managers of the branch plants I opened up back there.

Q. Do you remember what percentage you gave them on automotive radio set sales?

A. No, no. I would say that it was very little, because in '26 the company took a terrific loss and practically was broke and had to be rebuilt from that point, so their remuneration couldn't have been very heavy. Those two branches were closed.

Q. Do you have any incentive plans now on a distributor basis? A. Yes. [333]

Q. With a man by the name of Totten?

(Testimony of S. W. Gilfillan.)

A. Well, in 1943 Totten was a commander on a destroyer at sea. Are you talking about '43 or now?

Q. I was asking you then.

A. He was not in our employ in '43. He had never been employed by me until after he came back from the war and I gave him a job.

I might tell you about two other incentive plans, if you want to know about them that didn't work.

Q. Well, we have got such a wonderful one here that did, I don't believe I would like to hear discouraging plans.

A. Well, Mr. I. B. Sparks and Mr. Jennings Brown, vice-president, in 1941 had an incentive plan on the sales from the machine shop, and the war broke out. Their incentive pay would have gone up to \$50,000.00 a year, and both of them came to me voluntarily and asked me to put them on a straight salary of \$15,000.00 a year. That is the way those two incentive plans worked in our organization.

Q. But that was purely vountary on their part?

A. Yes, it sure was.

Q. Did you have any Washington representative?
A. No.

Q. You didn't have?

A. Well, you mean a hired representative?

Q. Yes. [334] A. No.

Q. Did you ever have anyone on a commission basis during the war?

A. On military orders?

(Testimony of S. W. Gilfillan.)

Q. Yes.

A. No, it was frowned down on by the government.

Q. Well, of course, you had a great many military orders before we declared war, didn't you?

A. Correct.

Q. So you probably didn't need anybody?

A. Only technical people to go around and pick them up.

Mr. Milliken: I think that is all, Mr. Crouter.

Mr. Crouter: Just two questions, if the Court please.

(Witness withdrawn.)

Whereupon,

S. W. GILFILLAN,

called as a witness for and on behalf of the Respondent, having been previously duly sworn, resumed the stand and testified further as follows:

Redirect Examination

By Mr. Crouter:

Q. Please tell the Court as best you can the approximate or average number of total employees of your corporation during the calendar year 1943.

A. In the early part of the year it was some place around seven hundred fifty. At the close of the year it was over a thousand.

Q. Now, referring to Exhibit G in evidence and your testimony regarding the figure of \$313,030.00 for general [335] and administrative expenses, please tell the Court what, if any, part of that fig-

(Testimony of S. W. Gilfillan.)

ure related to any business which was completed and sales completed after the day May 31, 1943.

The Witness: Will you read that again, please?

The Court: Read the question.

The Witness: Was that question correct? Was that after 1941? Is that the last part of that statement?

Mr. Crouter: That should be May 31, 1943.

Mr. Milliken: Now, if your Honor please, I object to that unless the witness has some specific data to qualify himself as to be able to break that down.

The Witness: I can't.

Mr. Milliken: That is satisfactory. I understood you to say you couldn't, Mr. Gilfillan?

The Witness: It would be just a horseback opinion. I haven't the figures here.

Mr. Milliken: Then I object to it.

The Court: The objection is sustained.

By Mr. Crouter:

Q. Referring to the figure up above that, the second line on Exhibit G, your cost of products sold, \$2,792,274.67. Did all of that relate to sales completed in 1943?

A. Yes, because that is the cost, the factory cost of the sales made.

Q. Did you have any cost figures which entered into [336] your fiscal year 1943 which really related to future business?

The Court: I am afraid that question if it is answered is not going to help you very much. What do you mean, ending May 31, 1943?

(Testimony of S. W. Gilfillan.)

Mr. Crouter: It may be confusing. I will withdraw that question, please.

By Mr. Crouter:

Q. Please tell the Court whether there were any factors in the operation of your business particularly during the seven remaining months of 1943 calendar year which really did not pay off and did not reflect itself in completed sales until after 1943.

A. The GCA development was picked up the early part, the middle of '42 and billing against that project because it was a development project, did not occur until after '43, although we spent \$2,000,000.00 during that period on administrative expenses, the cost of producing and engineering and so forth.

Q. About what was the overall consideration for that entire job?

A. That was—the development contract was \$2,100,000.00 approximately. The production amounted to \$12,000,000.00 roughly.

Q. What do you mean by “the production amounted to \$12,000,000.00 roughly”? [337]

A. Well, we developed 10 units and then built 50 for production to go into the field.

Q. That undertaking was in course then throughout the calendar year 1943? A. Yes.

Q. What in general was the basis of accounting of Gilfillan Brothers, a cash or accrual, your accounting system?

A. On a cash basis.

(Testimony of S. W. Gilfillan.)

Q. On a cash basis? A. Yes.

Mr. Crouter: That is all. Thank you.

Recross Examination

By Mr. Milliken:

Q. Mr. Gilfillan, are you sure you are on a cash basis?

A. Well, I should have asked for a definition of what cash basis is. By cash I mean that we—I think you got me there. I am kind of confused as to what is a cash basis. We pay our bills immediately and—well, I don't know. You got me, I will tell you right there.

Q. Well, I just assumed that you have a very substantial inventory at all times.

A. Yes, it fluctuates greatly.

Q. The Commissioner, I don't believe, would let anyone report on a large inventory— [338]

A. I will correct my statement. We are not on a cash basis.

Mr. Crouter: Do you happen to have a copy of one of your federal tax returns with you?

The Witness: No, I do not.

Mr. Crouter: No further questions.

By Mr. Milliken:

Q. Mr. Gilfillan, in that Exhibit G, of this \$313,-030.33, that was either all incurred or paid for the fiscal year ended May 31, 1943, wasn't it?

A. Yes.

Q. Either incurred or paid? A. Yes.

Mr. Milliken: That is all.

(Testimony of S. W. Gilfillan.)

The Court: Let me ask you one question, Mr. Witness. As I remember it, you said that some certain part of your business in 1943 was the production, commercial production of radios, was that right?

The Witness: No, it was in '42, Judge. In '42, the early part of '42 we made radios.

The Court: About when did that stop?

The Witness: About March or April.

The Court: Do you have any engineer in complete charge of that, that is, did you have any one engineer who was in charge of radio engineering?

The Witness: In '43?

The Court: No, in '42.

The Witness: In '42——

The Court: While you were producing radios?

The Witness: Yes, Fred Wolcott.

The Court: How many assistants did he have?

The Witness: Oh, he had about two or three.

The Court: What did you pay him, if you remember?

The Witness: \$10,000.00 a year.

The Court: That is all I wanted to know.

Mr. Crouter: May I ask one further question, if your Honor please?

Would the \$10,000.00 be for Mr. Wolcott and for each assistant, or was there a difference?

The Witness: I am giving you my recollection from memory. I believe that his remuneration was \$10,000.00 per annum in '42.

(Testimony of S. W. Gilfillan.)

Mr. Crouter: Now, with respect to the assistants, would they have about the same amount or would that be——

The Witness: Oh, they would drop down all the way from \$45.00 a week to \$125.00 a week.

Mr. Crouter: That is all.

Mr. Milliken: Just one question I would like to ask you Mr. Gilfillan. Were you aware of the work that the Hoffman Radio Corporation did during the year 1943, the [340] character of the work?

The Witness: No.

Mr. Milliken: You didn't know a thing about their contracts?

The Witness: No.

Mr. Milliken: Didn't know what type of contracts they had?

The Witness: I had heard they were doing electronic work.

Mr. Milliken: But I say you didn't know it?

The Witness: No.

Mr. Milliken: That is all.

The Court: You are excused.

(Witness excused.)

The Court: Call your next witness.

Mr. Crouter: That is all. Respondent rests.

The Court: Respondent rests, what says the Petitioner?

Mr. Milliken: Petitioner rests.

The Court: Now, you have a considerable record here. Until February 2, 1948 for both sides to file briefs. Until March 1, 1948 for reply briefs.

Mr. Crouter: Thank you.

Mr. Milliken: Thank you.

The Court: You have an interesting question here. [341] I would like to have briefs.

Mr. Milliken: We will do our best.

(Whereupon, at 3:25 o'clock p. m., Friday, December 12, 1947, the hearing in the above-entitled matter was closed.)

[Endorsed]: Filed Dec. 30, 1947.

PETITIONER'S EXHIBIT No. 1

July 27, 1943

SUPPORTING SCHEDULE No. 2

1. 1940, none; 1941, none; 1942, 35%.

2. H. L. Hoffman, Percentage Common, 50%; Percentage Preferred, 10%. G. G. Davidge, Percentage Common, 25%; Percentage Preferred, 24%. W. D. Douglas II, Percentage Common, 25%; Percentage Preferred, 66%.

3. The company has no affiliated or subsidiary companies. However, the company has taken a very active interest in establishing new vendors of component parts. This action was taken to relieve the strain on eastern vendors and guarantee a flow of material from local sources.

The company has been very active in analyzing and utilizing available manpower and equipment, rather than expand its own capital equipment. This necessitated very close supervision on the part of the company's management. That was effective in creating productive subcontractors on critical materials, such as—crystals, steo-tite molding, die casting, plastic molding and fabricating, fasteners, screw machine and sheet metal work. The company has no financial connection with any of these subcontractors.

The best example of the effectiveness of this policy is—that the present Frequency Meters we are building for the Navy we are handling 90% of our procurement here on the coast.

4. Mission Bell Radio Manufacturing Company,

Petitioner's Exhibit No. 1—(Continued)

Inc. was incorporated in 1932 as a California corporation for the purpose of manufacturing radio receiving sets. The company was originally owned by two stockholders, Mr. P. L. Fleming and Mr. H. G. Schmeiter. Distribution was through jobbers, dealers and private-brand users, such as—Sears, Roebuck & Company, Firestone Tire & Rubber Company, etc.

The company concentrated on low-priced units and were the first to market a small table model radio on the coast.

On October—1935—they purchased the Franklin Radio Company, whose main asset was a R.C.A. License to manufacture radio receivers. This license was one of three on the coast. All other manufacturers were licensed through Gilfillan Bros.

In 1940 the controlling interest of the company was sold to Franklin Warner with the understanding that additional capital would be supplied for manufacturing purposes. Mr. Warner failed to supply the additional capital and it developed that his scheme was entirely a stock promotion program, which did not materialize. Mr. Fleming and Mr. Schmeiter were unaware of this plan and they sold the controlling interest of the company and were unable to do any reorganization until November—1941—at which time the control came back into their hands.

At this time Mr. H. L. Hoffman and associates consummated a contract which gave them the entire stock of the company. Additional capital was added,

Petitioner's Exhibit No. 1—(Continued)

the Accounts Payable cleared and manufacturing reinstated.

It was the purpose of Mr. Hoffman and his associates to utilize the R.C.A. License and manufacture radio receiving sets, radio phonograph combinations and special equipment for the various Police Departments.

At the time Mr. Hoffman and his associates took over the company they had no engineers and no factory workers. The entire personnel consisted of a shipping clerk and a telephone girl. The main asset of the company was the R.C.A. License and one of the stipulations of the license was that it could not be sold or transferred. . . . Consequently it was necessary to rehabilitate the old company.

The first step in this rehabilitation program was to secure competent engineering and a small group of factory technicians. This was accomplished by the purchase of the Mitchell-Hughes Company, who had been very successful in the manufacture and distribution of a high quality, high priced, custom made, radio phonograph combination. Mr. Alex Hirsch, the owner of this company, had recently passed away and his heirs wished to liquidate the company.

The Mission Bell Company was fortunate in securing the services of Mr. W. S. Harmon as Chief Engineer and a group of twenty to twenty-five factory technicians, trained in the construction of high-quality merchandise. Mr. Harmon had for-

Petitioner's Exhibit No. 1—(Continued)

merly been with Mission Bell but had left at the time control was sold to Mr. Warner, due to the fact that he would have no connection with the program Mr. Warner had in mind. Before his connection with Mission Bell he had been the Chief Engineer of the Emerson Radio Company in New York.

Shortly after the Mission Bell Company had been purchased its main asset—namely a R.C.A. License—became valueless, due to the declaration of war and the waiving of all license arrangements for the services, and, also, by a W.P.B. ruling stopping the manufacture of home receivers as of April 22, 1942.

Plans were immediately initiated to complete the construction of materials on hand at Mitchell-Hughes and secure orders for immediate production of Mission Bell sets. This was done and then the company moved the Mission Bell operation into the Mitchell-Hughes plant and the two consolidated. All of this was necessary to complete the operation for the deadline of April 22, 1942. At the same time the program was initiated to solicit subcontract work for the war production.

The description of the conversion from peacetime production to war manufacturing is covered in Paragraph 5.

5. As outlined above the principle items of peacetime production were radio receiving sets, radio phonograph combination and special intercommunicating and shortwave receivers.

Petitioner's Exhibit No. 1—(Continued)

Due to the fact that the company was new and untried, it was decided that they would start out doing subcontract work, consisting of fabricating of radio components. This afforded two opportunities—one to prove to the various services that we could fabricate as well as assemble and secondly, to train the new organization in the mechanics and requirements of war communication equipment production.

The first order secured was from Bendix Aviation of North Hollywood for Variable Condensers. The company had never built Variable Condensers before; in fact, to our knowledge they had never been built on the coast before. Negotiations with Bendix Aviation was started in February, 1942, and sample completed within a period of three weeks. There was one other local company who submitted a sample, but our sample was much superior in construction and quality as well as lower in price—consequently, we were given the business.

Tooling was instituted immediately and manufacturing processes studied carefully. It was found that due to the peculiar design of this unit that conventional production methods could not be used. Consequently, it was necessary to devise special methods of soldering the plates to the rotor and stator shaft. The method originated was very effective and was gradually improved, based on experience. Other special tooling was necessary and special assembly jigs constructed.

Petitioner's Exhibit No. 1—(Continued)

An order for these Variable Condensers was issued February 10, 1942, and first deliveries were made April 6—sixty days later. This included the construction of all dies and production tooling.

Due to the quality of the work done on the Variable Condenser and the quick action we gave Bendix, they presented to us the problem of manufacturing the M-357A Antenna Kite. This Kite when presented to us was in a very crude form and merely gave the general idea and type of unit they desired. Bendix was, also, contacting an eastern source for the possibility of their manufacturing this Kite for them and secured quotations from this eastern source—the James Heddon Company of Dowagiac, Michigan.

Based on our original sample submitted for this unit and the fact that our price was lower than the eastern source, we were given a contract to produce 100 of these units. This contract was given to us on a Wednesday and they wanted delivery the following Sunday. This request was met, although it involved all of the officers of the company as well as the employees working all night for three consecutive nights.

Production contract for 16,000 of these units was awarded to us April 30, 1942 and delivery started on May 16, 1942. It was necessary for the company to redesign this Kite for production purposes, and due to the fact that a Kite of this design had never been manufactured before, it was necessary to completely retool the plant. This involved work-

Petitioner's Exhibit No. 1—(Continued)

ing out a method to cut chrome moly tubing, special soldering attachments for fastening the fittings to the Kite, special sawing machinery and jigs and special assembly jigs and tools to assure uniformity and high quality.

Both of these jobs involved complete retooling and plant reorganization. Inasmuch as neither one of these items had been built before, it involved training our existing organization and supplementing it with more mechanical experience and ability. During this period of conversion the company added materially to its engineering and technical staff.

6. The price on item 1—the Variable Condenser for the SCR-578 was 50% of the price submitted by the Radio Condenser Corporation, and 25% lower than the local source—namely, Audio Products.

On item 2—the M-357A Antenna Kite—quotation was only submitted by one other company, an eastern source—James Heddon & Son—and their price was approximately 10% above the Mission Bell price.

Although the prices quoted when these contracts were consummated were based on an average labor rate of 60 cents per hour, the prices were not increased; even though labor rates went to an average of 77 cents per hour, an increase of approximately 25%. In addition to this overhead burden, to handle inspection, government reports, etc., our cost was considerably increased. During the course of both of these contracts there have been various

Petitioner's Exhibit No. 1—(Continued)

changes and re-work, and the company has avoided increasing the price in any case where they could avoid it.

Any price increases that have been installed have been based on cost of materials, only. As an example of this—Bendix originally furnished the materials on the Antenna Kite, which consisted of the cloth and the rods, and we furnished the fittings and the labor for the complete fabrication of the Kite. The price for our labor and parts was \$4.90. Bendix expressed a desire to have the Kite packed in a smaller space. The company worked out a design for breaking the Kite in the middle. This new design involved an increase in the amount of materials used and consequently, an increase in the cost of materials. This price was raised to \$5.58.

Bendix then asked the company to procure the material on the next contract, and the company merely added the cost of the material to the existing price to arrive at their quotation.

During the life of these contracts there have been some definite increases in cost of material. We attach letter sent to Bendix covering these increased costs on the Kite.

Stamping and screw machine work on the Variable Condenser have almost doubled in price on this contract, due to the increased cost of vendors' labor. This increased cost was not passed on to Bendix, but was absorbed by our company.

The company has saved critical materials by

Petitioner's Exhibit No. 1—(Continued)

redesign of the units. On the Variable Condensers brass parts were changed to steel, saving 20% of the total weight of the unit and avoiding a procurement bottleneck. Insulators on the Variable Condensers were changed from one material to another to avoid shortage of critical materials. A method was developed for fastening the reinforced sleeving on the rods with a pressed fit to eliminate soldering, thereby reducing the weight of the Kite and eliminate the use of 50-50 solder in this part of the operation.

A new source of tubing for this Kite was established. This tubing was .0008 wall chrome moly tubing and made of the most critical materials. The company uncovered a large stock of stainless steel tubing, which originally had been drawn for Coca Cola dispensers. This tubing was re-drawn for use on the Kite; thereby relieving a critical shortage of chrome moly tubing and utilizing discarded material.

Several improvements in design were originated by Mission Bell and approxed by Bendix and the Signal Corps. This included a design for fastening the cloth to the framework of the Kite in a more efficient manner and eliminating stainless steel staples. Several other items were recommended by the company, both as to construction and design.

In July, 1942, the Signal Corps established Kingston Products Corporation of Kokomo, Indiana, as a subcontractor under Bendix to fabricate the complete SCR-578. The Signal Corps indicated that

Petitioner's Exhibit No. 1—(Continued)

they wanted an independent source for the Kite, due to a basic policy of not using common, component part sources. Mission Bell furnished Kingston with their original requirements and then sent complete blue print instructions and parts to James Heddon & Son, and instructed them on the construction of the Kite so that they could furnish Kingston with their requirements. Since that time we have kept Heddon advised on all improvements, and have given them the benefit of all the results we have obtained.

On June 30, 1942, the company entered into a Development Contract with Wright Field to develop a 28 volt Interphone Amplifier. This Development Contract was completed within 45 days. According to Wright Field it was the only Development Contract they knew of that was completed on time.

During the latter part of 1942 the company and accepted by Wright Field.

During the latter part of 1942 the company developed a Noise Silencer and presented it to the Army and the Navy. This development was accepted by the Navy with the advice that it would be installed in all subsequent receiver productions. However, the company waived all royalty rights.

In September, 1942, the company secured a contract to manufacture A-62 Phantom Antennas, and in November, 1942, secured a contract to manufacture A-58 Phantom Antennas. Both of these contracts were Prime Contracts through the Philadelphia Signal Corps. Delivery on both contracts have

Petitioner's Exhibit No. 1—(Continued)

been either up to requirements or ahead of requirements.

7. In December, 1942, our company made application with the California Bank, Los Angeles, for a \$200,000.00 Title V Loan. Our borrowing under that loan has not exceeded \$125,000.00. That loan has now been replaced with a new Title V Loan for \$400,000.00. The additional funds are necessary in connection with the financing of our Navy Contract, which has been in the engineering stages to date, but which is now going into production. It is our belief that this loan will adequately handle any financing necessary in connection with our present war orders.

8. Our present offices and principle manufacturing plant is at 3430 South Hill Street, Los Angeles, California. This property is leased from the Lloyd Corporation for \$300.00 per month. The lease expires July 1, 1945. We, also, have under lease the building at 3446 South Hill Street from Gertrude C. Bowers at \$90.00 per month. This lease expires July 1, 1945.

During the past month the company acquired property at 3751 South Hill Street for the expansion of its manufacturing facilities. The building contains 18,500 square feet and in addition a surface parking lot of similar area. This is a brick, one-story building, less than two years old, containing adequate wiring and other facilities for use in manufacturing at once. This building was appraised by the California Bank before purchase

Petitioner's Exhibit No. 1—(Continued)

was made and it was their thought that the building was not over priced.

An application for a Certificate of Necessity, covering equipment in the amount of \$4,459.15 was filed by this company on April 19, 1943. It is our intention to file a new application for a Certificate of Necessity in connection with our building purchase, which is entirely for war work.

9. The number of productive employees at the beginning of 1942 was 7—at the close of the year 94. At the close of 1942, 22% of the employees were male and 78% were female; 16% were skilled and 84% were unskilled.

10. Mr. H. L. Hoffman received \$18,699.52 for his services for the year of 1942 under his employment contract, dated December 4, 1941.

Mr. W. S. Harmon received \$7,244.18 for his services for the year of 1942 under his employment contract, dated March 10, 1942.

Mr. Hoffman's title is President and Mr. Harmon's is Vice-President in charge of Engineering.

11. Same as in Paragraph 10.

12. Captain Asbury—San Francisco Signal Corps. Captain Huff—San Francisco Signal Corps—Los Angeles area. Captain J. A. Biggs—A.R.L.—Wright Field. Captain Hill—Philadelphia Signal Corps. Captain Temple—Philadelphia Signal Corps.

PETITIONER'S EXHIBIT No. 2

Hoffman Radio Corporation
3430 South Hill St., Los Angeles, California

1943 REPORT

July 22, 1944

Signal Corps Price Adjustment Section
370 North Camden Drive, Beverly Hills, Calif.

Gentlemen:

We have previously given you the history, the background of the company, and the activities during 1942 of the Mission Bell Radio Manufacturing Company, Inc. As of November 12, 1943, the Articles of Incorporation of the Mission Bell Radio Manufacturing Company, Inc. were amended, changing the name of the company to the Hoffman Radio Corporation.

We now wish to bring our report up to date and cover our contribution to the war effort during 1943 and to make certain comparisons with our contributions for 1942 as follows:

	1942		1943	
1. Net Sales	\$230,136.00	100%	\$1,836,432.00	100%
2. Cost of Sales.....	171,643.00	74.5	1,489,033.44	81
4. Selling and Adver- tising Expense	2,444.00	01.1	6,872.38	00.4
5. General and Admin- trative Expense	20,492.00	08.9	116,861.75	06.3
			[Penciled]: 30% reduction	
6. Net Operating Profit	35,557.00	15.5	223,665.42	12.17
8. Other Applicable Deductible Items	2,030.00	00.9	11,808.26	00.64
	<hr/>	<hr/>	<hr/>	<hr/>
Net.....	\$ 33,527.00	14.6	\$ 211,857.16	11.53
			[Penciled]: 21% reduction	

Petitioner's Exhibit No. 2—(Continued)

While these figures show that we have increased the production of war goods more than seven times, still it does not give a complete picture.

We were asked during the past year to produce items many times more complex than those which we produced in 1942. We have also been asked to assist in the development of new equipment. Some of this newly developed equipment is now in use and other items are now being manufactured. The importance of these items is much greater to the war effort than what we were producing during 1942. Endeavor will be made to explain that point more fully later in this report.

Delivery Record—Our company, during 1943, had a record of delivering all of its materials either ahead of time or in accordance with production requirements. There was only one record of not meeting the delivery requirement specified in our contracts, and that was where our company was building the same equipment for two different procurement districts. The inspector-in-charge modified shipping instructions to the point where the final completion of one order was not until forty-five days after the specified delivery date. This was accomplished in spite of manufacturing delays beyond our control, such as the diverting by the War Production Board of stainless steel tubing to other war contracts and the failure on the part of some suppliers to meet production specifications.

Prices—The prices which we have charged for equipment furnished to the Services in 1943 have

Petitioner's Exhibit No. 2—(Continued)

been conservatively below those of other contractors, or they have been competitive.

During the year, we continued to supply variable condensers, and we were the only source of supply for this particular item. Our prices remained the same in spite of rising material and labor costs.

We are the largest manufacturer of antenna kites, and we have made a material reduction in the unit price during the year and we expect to make further reductions during 1944.

It is our understanding that our prices on the A-58 phantom antenna and the A-62 phantom antenna which we manufactured for the Signal Corps were competitive. We also made a contract price reduction of \$8,540.00 on our A-62 contract.

On our frequency meter contract, we were given a price of 10% over existing prices to allow for tooling amortization, and on the basis of the prices allowed, we have already made price reductions and a cash refund totaling \$656,327.50. It is anticipated we will make at least another \$150,000.00 cash refund on the original contract of \$4,000,000.00.

The actual cash refunds made on 1943 business were \$8,540.00 on our A-62 contract and \$100,600.00 on our frequency meter contract or a total of \$109,140.00. This sum is 51.5% of our net profits for the year 1943.

Substitution and Economy in the Use of Materials—Our Engineering Staff has been able to overcome a number of critical situations by working

Petitioner's Exhibit No. 2—(Continued)

out substitutions of raw materials and by changing component parts. Approval was obtained on all recommendations submitted.

In the building of A-58 phantom antenna, request was made and permission given to use cold rolled steel instead of aluminum for the case and front panel, thereby saving approximately 20,000 pounds of aluminum which at that time was a critical item.

Substitution was made and approval received for the use of cold rolled steel for the base and end plate of the variable condenser, thus eliminating a corresponding amount of copper.

In building frequency meters, we made numerous substitutions of materials and component parts and in the methods of production. Many of these substitutions enabled us to get into production sooner on this vital equipment, and all of the changes have been officially approved. Some of the more important of these are as follows:

1. The variable condenser plates were zinc plated with Iridite instead of silver to improve the salt spray resistance.

2. The front panel of the unit has been made separate from the chassis. This has saved the scrapping of many engraved panels where the chassis was rejected or had to be re-worked.

3. Caustic dip was substituted for sand blasting and lacquer which saved time and considerable expense.

Petitioner's Exhibit No. 2—(Continued)

4. To overcome a procurement bottleneck, a Vinylite cable was substituted for rubber cable.

5. Permission was given us to substitute a pilot light for a meter when the latter became difficult to secure.

6. We submitted a plan for the use of extrusions in place of inserts in the chassis which has saved much loss of time in assembly as the inserts frequently came out and also saved cost on screw machine parts.

7. One of the biggest improvements over previously used methods was in substituting a plated crystal instead of the air gap type crystal. This substitution has greatly improved the stability of the unit.

8. We have developed a new construction for hermetically sealed transformers and reactors and have instructed a local source in the production of these items.

Reasonableness of Costs and Profits—The peacetime operation of our company is that of radio assembly. It was the practice of the old company to purchase component parts and to assemble them into complete radio units. This did not involve complicated procedure and only required a minimum of equipment. The testing procedure was also relatively simple. When conversion was made over to war work, the first items produced were not complicated. We manufactured these items as a sub-contractor. When we became prime contractors, the items manufactured became more complex.

Petitioner's Exhibit No. 2—(Continued)

Their importance to the war effort also increased.

From relatively simple items, we now manufactured equipment that has 588 parts, 211 assembly operations and 16 electrical tests. This whole procedure is entirely different from normal peacetime work and requires a greater skill and a higher type of personnel. In most cases, we have trained the necessary personnel.

As production has increased, overall profit has been reduced. In 1942 the percentage of profit was 14.6 on renegotiable business. In 1943 this has been reduced to 11.5 percent.

Capital Employed—All war orders awarded to our company have been financed from company funds or from loans guaranteed by the stockholders of our company.

During 1942, in addition to the company capital and advances by the stockholders, it was necessary that financing be handled by bank loans endorsed by the stockholders of our company. For 1943, in addition to company funds and further advances by the stockholders, the financing of our orders was by Title "V" Loans.

The original loan of \$200,000.00 was made January 15, 1943 with the California Bank. That loan was fully guaranteed by the stockholders of our company. On July 10, 1943, we found it necessary to increase that loan to \$400,000.00 and this amount was again guaranteed by the stockholders.

Later in the year it appeared evident that we would require additional funds in order to handle

Petitioner's Exhibit No. 2—(Continued)

increased production requirements of frequency meters. Production was to be stepped up to where in April of 1944 we would be producing 1,200 units per month. On the basis of that production requirement, it was estimated that we would need a maximum of \$1,220,000.00.

This new Title "V" Loan was granted by the Bank of America National Trust and Savings Association inasmuch as it was in excess of the lending power of the California Bank. The stockholders again gave their personal guarantee to this loan for an amount of \$400,000.00. At no time has it been necessary that we borrow in excess of \$400,000.00.

Due to the transferring of the Disbursing Office from Washington, D. C. to San Diego, California, payments have been received much faster than was anticipated. There was also a reduction of the monthly requirement of frequency meters to 800 units a month. As a result of this, the present loan will handle all requirements under our present orders and orders which will start in the latter part of 1944.

When it became evident that additional facilities would be necessary for the manufacture of frequency meters and other items for which we had been advised the Navy was contemplating awarding contracts to us, property was purchased at 3751 South Hill Street. This property consists of a building with 18,500 square feet of manufacturing space with a parking lot of equal size.

Petitioner's Exhibit No. 2—(Continued)

The purchase price was \$55,000.00, and the purchase was made only after the California Bank appraised the property and considered the purchase price was under the physical valuation of today's market. The terms of the purchase were: Cash, \$25,000.00—Trust Deed, \$30,000.00. The \$25,000.00 down payment was advanced by the stockholders of our company. In return, they took corporate notes payable on demand. Subsequent to the purchase, application was made for a Certificate of Necessity in the amount of \$55,000.00 which was granted.

The above \$25,000.00 advanced by the owners of our company, together with previous advances, made a total of \$72,500.00. In order to increase the financial structure of our company, application was made for a permit to issue preferred stock for these officers' advances. That permission was granted, and this obligation was, on December 31, 1943, transferred from a current liability to a capital liability.

This year we are building an addition to our plant at 3751 South Hill Street. It involves a total investment of approximately \$15,000.00 including additional land and the building. This will be paid for by the company without making application for a Certificate of Necessity even though the rest of the property is covered by such a Certificate.

Extent of Risk Assumed—As explained under the previous heading, we expanded our facilities, using our own funds, in anticipation of the work

Petitioner's Exhibit No. 2—(Continued)

to be assigned us. The correctness of this procedure has been demonstrated by the fact that we have had the facilities available when the demands were made on us.

All of our contracts for war equipment have been on a fixed price basis. It has been the company policy to fix a price based on an estimate of material, labor and overhead costs together with a reasonable profit, and if the estimate proves too high, to make price reductions.

In taking on the contract to build frequency meters for the Navy, we definitely assumed obligations which, if we had not been able to meet, would have resulted in the stockholders being liable under their personal guarantee. Two companies had previously failed in attempting to build this equipment.

In the building of frequency meters, we operated under a Letter of Intent until such time as we were in a position to handle complete units. A Letter of Intent provides that in the event of failure to deliver or to meet requirements, the Government can reimburse for actual expenditures and assume title to all materials from that point on. Any cancellation of operation would have meant that the corporation would have been refunded the actual costs with no compensation for the time spent on the project.

Contribution to the War Effort—In 1943 we entered into an arrangement with the E. J. Hall Electrical Laboratory, whereby our company was to engineer for production and to market an elec-

Petitioner's Exhibit No. 2—(Continued)

tronic relay and noise peak limiter. These items accomplished certain desired results in eliminating noise from sending and receiving equipment.

The engineering work was completed and working models were sent to Washington with representatives for presentation of the equipment. The effectiveness of the equipment was demonstrated and resulted in orders from the Federal Communication Commission, the Treasury Department for use by the Federal Bureau of Investigation and the Office of Strategic Service.

Based on the results of the equipments delivered, we have been given a development contract for the adaptation of the electronic relay for use by the Navy in connection with certain types of sending and receiving equipment. Our engineers are also continuing to cooperate very closely with the Navy Department on certain noise problems which they are endeavoring to eliminate.

We have received orders from the Navy for the noise peak limiter built as a separate unit. Permission has been given the Navy and schematic diagrams of the noise peak limiter made available so that this limiter could be built into communication equipment being manufactured by other concerns. Under instructions from the Navy, other concerns building Navy equipment are incorporating this feature.

Our company was selected by the Office of Scientific Research and Development to cooperate with the California Institute of Technology and engineer

Petitioner's Exhibit No. 2—(Continued)

for production the firing error indicating equipment which had been developed by the California Institute of Technology. Our best engineers were assigned to this project, and we had from three to five engineers working on this during the last seven months of 1943.

This development work has been continued in 1944. The equipment designed has now been accepted, and 2,000 transmitters and twenty-three power supplies and receivers are being built for the Office of Scientific Research and Development. This is new equipment, and the entire production is being handled as a development contract without profit to us.

A number of developments and improvements have been made in the manufacture of antenna kites, and all of the improvements have been made available to the other contractor making this same equipment—James Heddons Sons of Dowagiac, Michigan. These improvements include a new split kite design, a new cloth clamp, and the grooving of the hinge clamp for greater rigidity. Now our engineers are about to eliminate the soldering operation which should greatly speed up production of this equipment. At the request of the Instrument Division of the Weather Bureau, we have constructed a three-section kite which has been submitted to them for tests.

Our company has also built and carried on experimentation with various other kite designs at the request of the Navy Department, and these

Petitioner's Exhibit No. 2—(Continued)

have been demonstrated to the Navy at San Diego, some of the equipment built being of a confidential nature.

In the manufacture of frequency meters for the Navy Department, we have cooperated with the other supplier, Bendix Radio of Towson, Maryland, supplying them with drawings of all changes of design and substitutions which have been developed by our Engineering and Production Departments. All the items listed elsewhere covering improvements in the frequency meter and changes in the methods of manufacture have been made available to Bendix Radio.

The developments which have been made by our Engineering and Production Staffs in the frequency meter have resulted in a superior unit over that which was submitted to us as a sample. As a result of these improvements, our company has been selected as the only source for future production of C.F.I. Units for the Navy Department.

We, therefore, consider that our development and production of frequency meters to meet the close tolerances required and to produce such a superior unit that we would be selected to continue the production for the Navy on future orders in place of the previous supplier is our outstanding contribution to the war effort during 1943.

Character of Business and the Extent of Sub-Contracting—Upon entering into war work, we decided to limit activity, as much as possible, to production engineering and assembly. Following

Petitioner's Exhibit No. 2—(Continued)

that procedure, it was decided to utilize existing facilities in this territory and not establish new facilities in competition.

This plan of operation has necessitated the establishment of an Outside Production Department which has five employees at the present time. This Department has contracts with many of the smaller plants which can supply us with work in which they specialize such as screw machine parts, metal fabrication, coil winding, sheet metal, plating, plastics and similar work. The Outside Production men carefully check over the facilities of these plants before the order is placed, and then follow the work carefully to see that they keep production to the tolerances required and that delivery schedules are met.

This plan of utilizing existing facilities of other companies keeps down the investment in fixed assets, many of which could only have been supplied to us on a high priority.

In 1942 we sub-contracted approximately \$40,000.00 of business; in 1943 over \$500,000.00 or approximately 30% of the cost of sales. In most cases, we supplied the material, so that we were really purchasing labor and the use of facilities, thereby spreading out the war work to many small sub-contractors.

Other Factors—During the year 1943 we placed special emphasis on employee management relations. We have a semi-monthly meeting of employee representatives from each production line together

Petitioner's Exhibit No. 2—(Continued)

with representation from management. At these meetings plans for better working conditions are discussed and any problems which have arisen between the employees and management are settled.

We have a suggestion box, and this employee group makes awards for suggestions which they consider have merit in increasing production, working conditions or in connection with any other matter relating to plant efficiency. This arrangement has worked out very satisfactorily, and on an average ten awards for suggestions are made at each meeting.

Forty percent of the new ideas and improvement of manufacturing conditions in our plant have resulted from employee suggestions. Our employee management plan has given our employees a feeling that they have a part in the management of the company and that if they have a suggestion of any kind, it will be given proper consideration.

The dollar volume of production per employee was \$2,425.00 in 1942. In 1943 the dollar volume of production per employee was \$4,844.00.

This computation is made after deducting sub-contracted work and profits. While it is appreciated there are other factors than increased efficiency which would have contributed to this increased dollar volume, nevertheless, we consider a large part is due to the reason and the greater interest which our personnel now has in their work.

The restaurant facilities in the immediate neighborhood are not sufficient to meet our expanded

Petitioner's Exhibit No. 2—(Continued)

force, and it was, therefore, necessary that we establish our own commissary in order that our employees have warm wholesome meals. A complete meal is served at a cost of 40 cents.

Hot coffee and light refreshments are available to our employees during the ten minute rest period in the morning and in the afternoon.

This has been of material aid in maintaining employment and in reducing labor turn-over. Our average monthly labor turn-over for 1943 was only 11%. Further efforts to reduce absenteeism are summarized as follows:

1. Vitamin pills are furnished at cost to employees.

2. Oral cold vaccine has been supplied without cost.

3. A visiting nurse arrangement has been established for our plant and for home calls where requested, or where a person is absent for more than three days time. This system, originally installed by our company, has been copied by many other small plants in the Los Angeles area. See photostatic copy of letter attached.

4. A vacation policy has been established to give one week vacation with pay to all employees who have been with the company for one year. Each employee is entitled also to an additional half-day for each month's perfect attendance. An employee with perfect attendance for the year thereby gets two full weeks vacation with pay. Many factory employees have qualified for the full two weeks.

Petitioner's Exhibit No. 2—(Continued)

5. Group insurance has been made available to employees, the company assuming one-quarter of the premium and the employee three-quarters.

6. Three times a year service pins are awarded our employees for commendable attendance. For four months service with a maximum of two days absence, a sterling silver pin is given. A eight month pin is awarded for service for this period with not more than four days absence. Employees are eligible for a gold service pin after twelve months of service with an accumulated absence of not more than six days. The interest in obtaining these pins we feel has materially reduced absenteeism. Our absenteeism is approximately 3.5%.

We have attempted in this letter in general terms to set forth our increased contribution in 1943 to the war effort. Some of the outstanding facts we have set forth in the graphs attached.

1. Graph E indicates our sales volume increased 689% while plant facilities (Graph A) only increased 167%, showing a greater utilization of our factory space. Graph F shows that in expanding our war production we only expanded our personnel 177%.

2. Graph B indicates the greater distribution on our part of our contracts to smaller shops. Graph C shows relation of our various contracts with reference to the number of parts sub-contracted, production of which it is necessary for us to supervise in the various sub-contractors' plants.

3. Graph D indicates the greater complexity of

Petitioner's Exhibit No. 2—(Continued)

our frequency meter contract, our principal contribution to the war effort in 1943, as compared with the previous prime contracts assigned to us. In addition to the increased number of parts for our frequency meter contract, a much closer tolerance is required and a higher skilled personnel is necessary to handle these parts. It is the complex nature of this contract that has required the expansion of our Engineering Department as is indicated by Graph G.

4. Graph H indicates that our hourly labor rate has increased 36%. In making this increase, we have not increased our selling prices. This increase is due to a higher labor rate range granted us by the National War Labor Board and by the employment of specialized labor on the more complicated work on the frequency meter. All the people employed on the premium paying jobs are trained in our plant.

We are also attaching a brief summary of each different item we have manufactured and the pertinent facts regarding the various contracts under which we have operated.

We might briefly summarize our comparison of our 1942 and 1943 contributions by a statement that in 1942 we were acting as sub-contractors. In 1943, based on our records as a sub-contractor, we were made prime contractors and assigned equipment to build which up to that time had only been manufactured by one other source for the Navy.

We feel we have met the obligations imposed

Petitioner's Exhibit No. 2—(Continued)

upon us as a prime contractor by having met delivery schedules, produced on a competitive price basis and delivered a product superior in many respects to that delivered by other contractors.

We feel these statements are justified by the fact that we have again been assigned a more difficult contract for the building of equipment which is of a confidential nature.

This report is respectfully submitted as an addition to that already in your files.

Very truly yours,

HOFFMAN RADIO CORP.,
H. L. HOFFMAN,
President.

HLH:ea

Department of Health
City of Los Angeles 12
George M. Uhl, M.D., M.S.P.H.
Health Officer

May 1, 1944

Mr. H. L. Hoffman
Hoffman Radio Company
3430 South Hill Street
Los Angeles 7, California

Dear Mr. Hoffman:

The Division of Industrial Hygiene would like to take this opportunity to commend you for the efforts you have made in the interests of improving the conditions relating to the health of your employees.

Petitioner's Exhibit No. 2—(Continued)

Since our first study in your plant in July, 1942, you have faithfully followed all of our recommendations for the control of toxic exposures and unhealthy working conditions. You have called us in for engineering evaluations whenever you have instituted a new process, in addition to having us make repeat tests on permanent equipment. Also, your industrial nursing set-up has been a model for other medium-sized plants and has shown that a practical and useful arrangement for providing medical services can be made by such plants.

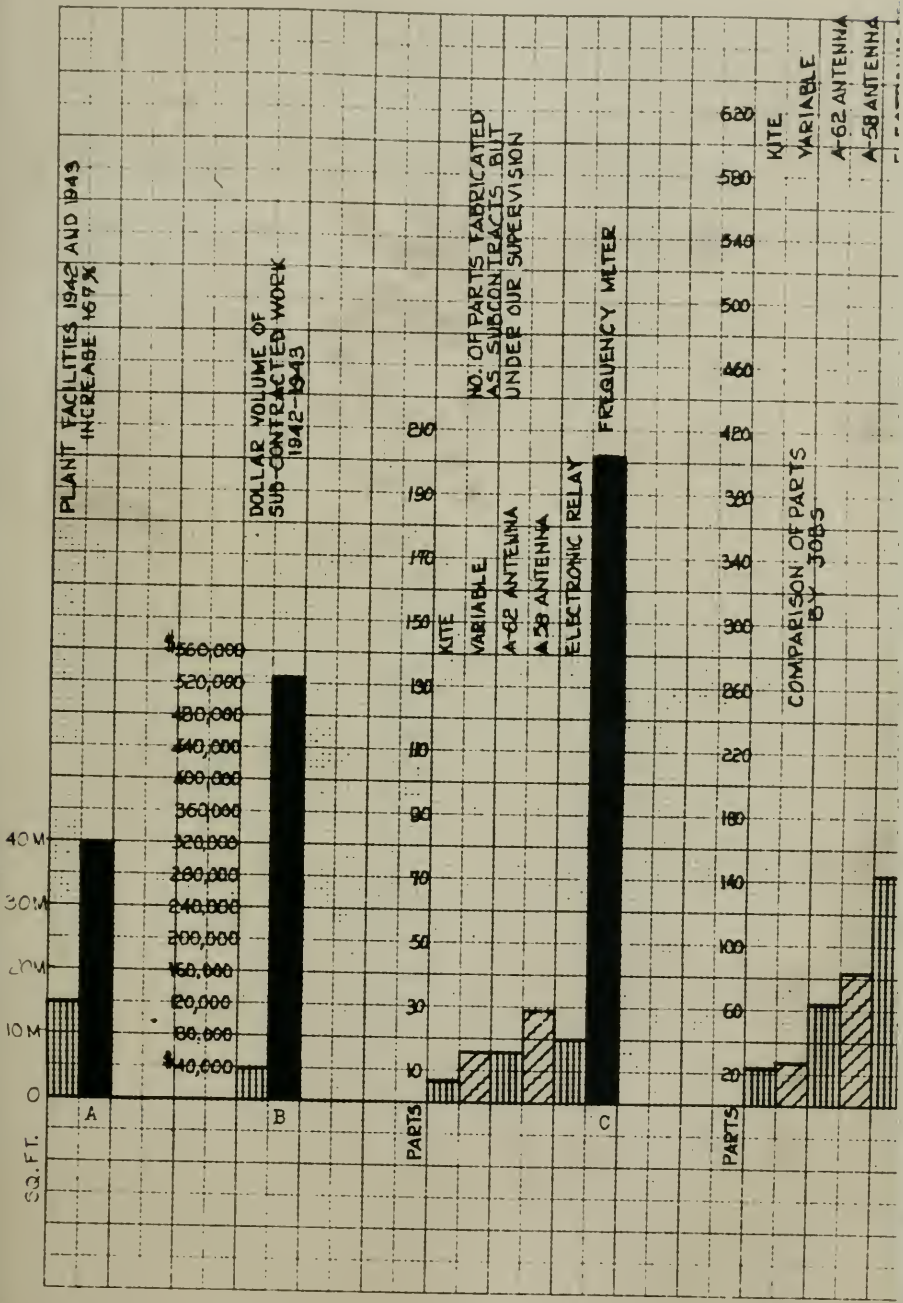
Whenever we can be of further service in evaluating your industrial health problems, engineering or medical, please do not hesitate to call upon us.

Sincerely yours,

/s/ FRANCIS E. BALLARD, M.D.,
Director, Division of Industrial Hygiene.

FEB:eb

10 to the half inch, 1/8 inch nominal
Engineering 1-18 1/2
and 1/4





GROSS SALES, COMPARISON
ON WAR ORDERS 1942-1943

\$2,000,000
1,800,000
1,600,000
1,400,000
1,200,000
1,000,000
800,000
600,000
400,000
200,000

1942



1943



NUMBER OF EMPLOYEES
DEC. 31, 1942 AND 1943
INCREASE 177%

300
260
220
180
140
100
60
20

1942



1943



ENGINEERING STAFF
DEC. 31, 1942 AND 1943

85
80
75
70
65
60
55
50
45
40
35
30
25
20
15
10
5

1942



1943



HOURLY RATE INCREASE -
AS OF DEC. 31, 1942 AND DEC. 31, 1943.
INCREASE 56% FOR FACTORY LABOR.

60
55
50
45
40
35
30
25
20
15
10

1942



1943



Petitioner's Exhibit No. 2—(Continued)

A material reduction in plating costs can be made if this should be adapted.

The relation of our variable condenser production as to the number of parts and amounts subcontracted is referred to in Graphs C and D.

ANTENNA KITES

Year	Production in Units
1942	20,457
1943	38,407

Production Schedule—Production of antenna kites varied from 2,000 to 5,000 per month. We experienced considerable delay in production due to the diverting of stainless steel tubing to the aircraft industry. In spite of that, we have been able to keep six months ahead of Bendix Aviation, Ltd. requirements.

To maintain our production schedule, we were required to have nearly half of our shipments of stainless steel and chromoly tubing sent in by air express. In addition to that, we spent many hundreds of dollars in long distance calls and telegrams to be able to even get the shipment by air express. This has materially increased our cost of production during 1943.

Prices:

1942: Where Bendix furnished material, \$5.58.

1942-43: Where we purchased all parts, \$9.79.

1943: Where we purchased all parts and packed in waterproof container, \$10.07.

Petitioner's Exhibit No. 2—(Continued)

1943: Kingston Products Order—no waterproof packing required; price based on use of 100% welded tubing, \$8.83.

1944: Dayton Signal Corps Procurement District Order—Price based on overseas packaging and use of part welded and part drawn tubing, \$9.20.

Improvements—Expediting of the drawn tubing cost us many hundreds of dollars during 1943. With the uncertainty of that source of supply, we started to assist a concern who had an idea of welding stainless steel sheets into tubing. After considerable experimenting and development, a welded tubing was developed which has been given Signal Corps approval for use in antenna kites. This new source of supply is materially aiding us in meeting the delivery schedule of the Dayton Signal Corps Procurement District.

The old system of stapling the cloth to a strip of tape run through a spring soldered to the longerons was abandoned after we obtained Signal Corps approval of the use of the new cloth clamp. This process is faster, the operators can work while sitting instead of standing, and we have gotten away from a critical material—monel staples—which were Signal Corps specifications.

We developed a method of swedging sleeves on kite rods to save solder and eliminate a costly soldering operation.

We put a special crimp in the kite cluster which gives it greater strength.

We standardized all the rivets in the kite by

Petitioner's Exhibit No. 2—(Continued)

VARIABLE CONDENSERS

Year	Production in Units
1942	30,754
1943	66,987

Production of the variable condensers more than doubled in 1943 over that of 1942. We are the source of supply for these condensers for both Bendix Aviation, Ltd. and Kingston Products Corp. Our production varied from 4,500 to 8,000 units per month, and we have been approximately six months ahead of manufacturing requirements.

Prices:

1942: Where Bendix paid for plating, \$2.22.

1942, 1943, 1944: Where we paid plating costs as well as supplied all parts. Additional cost to us of 75 cents, \$2.94.

The price of \$2.94 has been maintained in spite of increased material, labor and contracted work costs.

During 1943, to aid Marine Radio Manufacturing Company, we made a variation of our variable condenser to meet their requirements and to assist them in getting around a manufacturing bottleneck. We made 1,500 units for them at a price of \$3.85 each.

We have submitted to the Signal Corps a new process of plating called Iridite. We use this process on our Navy variable, and it stands the 200 hour salt water test better than the gold plating.

Petitioner's Exhibit No. 2—(Continued)

A material reduction in plating costs can be made if this should be adapted.

The relation of our variable condenser production as to the number of parts and amounts subcontracted is referred to in Graphs C and D.

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We developed a method of swedging sleeves on kite rods to save solder and eliminate a costly soldering operation.

We put a special crimp in the kite cluster which gives it greater strength.

We standardized all the rivets in the kite by

Petitioner's Exhibit No. 2—(Continued)

using the same rivet in hinge clamps as in the cluster. This change added strength to the assembly and simplified procurement by reducing the number of riveting machines needed for production.

We have been asked by the Navy Department to do certain development work on kites. This involved different designs for greater lifting power and experimentation in radar use. Several models have been submitted to the San Diego Base for further test.

The relation of our antenna kite production as to the number of parts and amounts sub-contracted is referred to in Graphs C and D.

A-62 PHANTOM ANTENNA

1943: Units Produced, 20,114.

Production was scheduled from February to November, 1943. Our shipments averaged more than 1,000 units per month over production schedules until in August. At that time, the failure of the Clarostat Corporation to deliver acceptable resistors forced a suspension of our production line for practically sixty days. In spite of that delay, we were able to complete our production on schedule.

Price—Our bid price was \$11.75 per unit which was 50 cents per unit under the concern who was given sixty percent of the contract and who were tooled for the job. On the last 854 units, we made

Petitioner's Exhibit No. 2—(Continued)

a reduction of price of \$10.00 per unit, making the price \$1.76. This affected a total contract price reduction of \$8,540.00, and reduced the overall unit price to \$11.52.

This contract was our first as a prime contractor and represented a considerable increase in manufacturing complexity over previous items. There were 62 separate items as compared with 26 on the variable condenser. Each item had to pass certain electrical and mechanical tests, all of which were supervised by an engineer.

We worked out a process of knurling the cap which saved considerable time and cost over previous method of fabrication. We made this a punch press instead of a screw machine operation.

The relation of our A-62 production as to the number of parts and amounts sub-contracted is referred to in Graphs C and D.

A-58 PHANTOM ANTENNA

1943: Contract W-2124-sc-7183—Order No. 13547 Phila 43—4697 Units at \$38.14 each.

1943: Contract R-9409—Order No. 24218 Phila 43, 39 Units at \$40.38 each.

1943: Contract W-2124-sc-1789—File 11751-WF-43, 1118 Units at \$39.88 each.

Production was scheduled on the three orders from January to July of 1943. On the first con-

Petitioner's Exhibit No. 2—(Continued)

tract, we completed delivery in June while the required schedule ran until July. On the second contract, we delivered in May, the month delivery was requested. On the third contract, we delivered 700 in the month requested and the balance during the following forty-five days.

Deliveries on the three contracts were regulated by the local Signal Corps office. All of the third order could have been delivered on schedule, and we would still have completed the first order by the final delivery date. We, therefore, consider delivery schedules were met.

We established our own source of supply on the West Coast for the steatite parts and supervised their production.

We also obtained from the Signal Corps permission to substitute cold rolled steel for aluminum in the case, thereby saving approximately 20,000 pounds of this scarce material.

The relation of our A-58 production as to the number of parts and amounts sub-contracted is referred to in Graphs C and D.

FREQUENCY METER

This is one of the Navy's most complicated precision electronic equipments. Several companies have tried building this equipment unsuccessfully. The Navy had only one source of supply, and they were anxious to establish another to insure deliver-

Petitioner's Exhibit No. 2—(Continued)

ies of this vital equipment and also to expand the delivery schedule.

Accordingly, a Letter of Intent NXss-19076 was awarded to us on December 5, 1942, for the building of frequency meters. This Letter of Intent, now reduced to a fixed price contract, has been amended increasing the amounts as follows:

	Units	Dollar Value
December 5, 1942.....	4104	\$1,561,535.00
July 9, 1943.....	2363	498,750.00
September 30, 1943.....	725	1,504,330.00
November 12, 1943.....	1250	473,125.00
	<hr/>	<hr/>
	8975	\$4,037,740.00

Average price, including spare parts—\$461.44.

After being awarded the contract, we first secured permission from Bendix Radio of Towson, Maryland, the other manufacturer of frequency meters for the Navy, to send some of our key men to their plant to study their production methods. These engineers were given every cooperation by the Bendix Radio Engineering Staff.

Next, we started tooling, building test equipment and working out procedures. As an indication of the work involved, there was approximately \$100,000.00 of test equipment and tooling necessary before we could start production. Much of this equipment was built right in our own laboratories. We completed the preliminary work and were in

Petitioner's Exhibit No. 2—(Continued)

production approximately six months after starting which was about half the time required on any similar tooling operation.

This equipment, which consists of a basic C.F.I. unit, has four adaptations.

The first, which is the C.F.I. alone, is primarily for aircraft and is airborne.

The second is a basic C.F.I. plus a power supply. The primary use is in air stations, bases and ship and shore installations where 115 volt power supply is available.

The third, the LM-16, which is a basic C.F.I. placed in a water-tight carrying case, is for use on ship board and advanced bases. The watertight carrying case permits it to be floated ashore along with other gear.

The fourth, the LM-17, is a C.F.I. unit with metal carrying case containing batteries and spare parts. This is used where there is no available power supply such as advanced bases or outlying posts.

For this operation, it was first necessary to build up an engineering staff who was capable of handling this type of work. Then it was necessary to train foremen to handle the various assembly lines, and last it was necessary to train all of the personnel to handle the manufacturing and testing. In all, 167 employees were trained during the last six months of 1943 for this job.

Petitioner's Exhibit No. 2—(Continued)

The production requirements at the beginning of our contract were as follows:

	Aug.	Sept.	Oct.	Nov.	Dec.
Production Requirements	100	200	350	400	500
Actual Production	74	300	406	510	526
Over or Under	26*	100	56	110	26

* Figures in red.

From our production schedule as compared with the production requirements, we exceeded deliveries in every month of 1943 except the first month of production.

This equipment must be built to very close tolerances. It is necessary to compute 4,000 calibrations to .0001% accuracy for each unit at a temperature range from -30 degrees to +68 degrees Centigrade. It is necessary that we give every C.F.I. unit some sixteen electrical tests before they are ready for Navy acceptance.

Our Engineering Staff and production foremen have developed many improvements on this equipment, a partial list of which appears in our letter. Some other improvements are:

1. The substitution of "Rincote" for engraving on the front panel has saved time and cost.
2. Snubbing washers have been added to the C.F.I. shockmount which prolongs the life of the shockmount under violent vibration.
3. The cable routing in the power supply unit has been improved to save time and cable losses.
4. Slots have been added for cable grommets

Petitioner's Exhibit No. 2—(Continued)

in the power supply to save time and cable installation.

5. We have developed a short check for temperature runs which saves time and cost without decreasing accuracy.

6. The number of different types of rivets in the C.F.I. unit has been decreased to improve the assembly time.

7. Deviation meters instead of dial divisions are used for quick checks of stability, backlash, switches and drift to save testing time.

8. We have changed from steel to brass plates on the trimmers and correctors to improve salt spray resistance.

9. The tube-clamp assembly has been changed to improve stability.

10. The band switch collar has been changed to enable use of bathtub condensers from alternate manufacturers.

11. The wiring of the coil shelf has been changed to improve the stability and temperature coefficient and to decrease the chance of shorting.

12. A one-piece drum instead of two-piece is used to save cost and time.

To begin with, the variable condenser used in the C.F.I. was purchased complete from Rauland Manufacturing Company in Chicago. They were supplying the same item to Army contractors. As our production increased, it became evident that they could not meet our requirements. We, therefore, tooled up to build this variable and are now producing our entire supply.

Petitioner's Exhibit No. 2—(Continued)

The company, on January 25, 1944, after having some manufacturing experience, found that they could amortize the required facilities over the present contract and still reduce the dollar value of Contract NXss-19076 from \$4,037,744.00 to \$3,381,417.00, or a price reduction of \$656,327.50. A refund of \$125,900.00 was made in cash, and the price reduced on the remaining units to be manufactured. By time saving methods which have been devised, we expect to be able to make a further refund about August 1 at least equal to the amount of our previous remittance.

The relation of our frequency meter production as to the number of parts and amounts sub-contracted is referred to in Graphs C and D.

ELECTRONIC RELAY

The electronic relay is an entirely new development by E. J. Hall Electrical Laboratory and Hoffman Radio Corporation. The entire unit was developed before being presented to the Government. The selling price per unit is \$650.00. Sales have been made to the following Services: The Treasury Department for use by the Federal Bureau of Investigation, The Office of Strategic Service, the Federal Communication Commission and the Navy Department (Development Contract).

The primary function of the electronic relay is for the noise reducing or noise eliminating from communication equipment. It treats unmodulated signals as though they were stationary frequency

Petitioner's Exhibit No. 2—(Continued)

modulation signals. In other words, it is as though at the peak of frequency swing de-modulation suddenly halted. At this point, a discriminator will produce a constant d.c. output voltage.

This equipment may be incorporated for use with code reception, pulse reception such as used in radar, or for use as a controller circuit in operating squelch circuits, carrier operated recording devices and similar equipment.

The present models of the electronic relay have been made in the form of adaptors, some to be used in conjunction with the Navy superheterodyne receivers as commonly used aboard ship and others for use on aircraft.

This equipment has been successfully used aboard ship where certain types of noise are encountered, in tropical regions where static conditions exist, and in the arctic where a type of noise is created by the aurora. Also, it overcomes noise created by precipitation static and snow static which are of a different character than the ones above mentioned.

The principle of the electronic relay combines in one unit a noise eliminator which meets the demands of conditions from the arctic to the equator.

This equipment is still in the development stage, and during the course of 1944 it is expected that its use will have been found effective with most types of communication equipment.

The relation of our electronic relay production as to the number of parts and amounts sub-contracted is referred to in Graphs C and D.

PETITIONER'S EXHIBIT No. 3

1942 Order Summary

For Bendix Aviation, Ltd.

Job No.	Order No.	Order Date	Item	Quantity	Dollar Value
1	5703-R	2-10-42	Variable Condenser	16,400	\$ 36,455.56
1A	7932-R	5- 7-42	Variable Condenser	15,225	44,761.50
2	7694-R	4-30-42	Antenna Kite	16,224	79,497.60
2A	8108-R	5-23-42	Antenna Kite	16,370	160,262.30
3	6497-R	3-28-42	Parts		6,865.79

For Aviation Radio Laboratory

6	Q55128	6-30-42	Interphone Amplifier	10	1,400.00
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For Kingston Products Corporation

8	45091	9-15-42	Antenna Kite	2,000	19,500.00
9	45096	9-22-42	Tuning Condenser		14,700.00

For Philadelphia Signal Corps

10	12388-Ph-43	9-23-42	Phantom Antenna—A-62		237,726.50
12	13547-Ph-43	10-12-42	Phantom Antenna—A-58		192,980.38

For James Heddons Sons

11	5397	10-5-42	Kite Clusters	17,000	892.50
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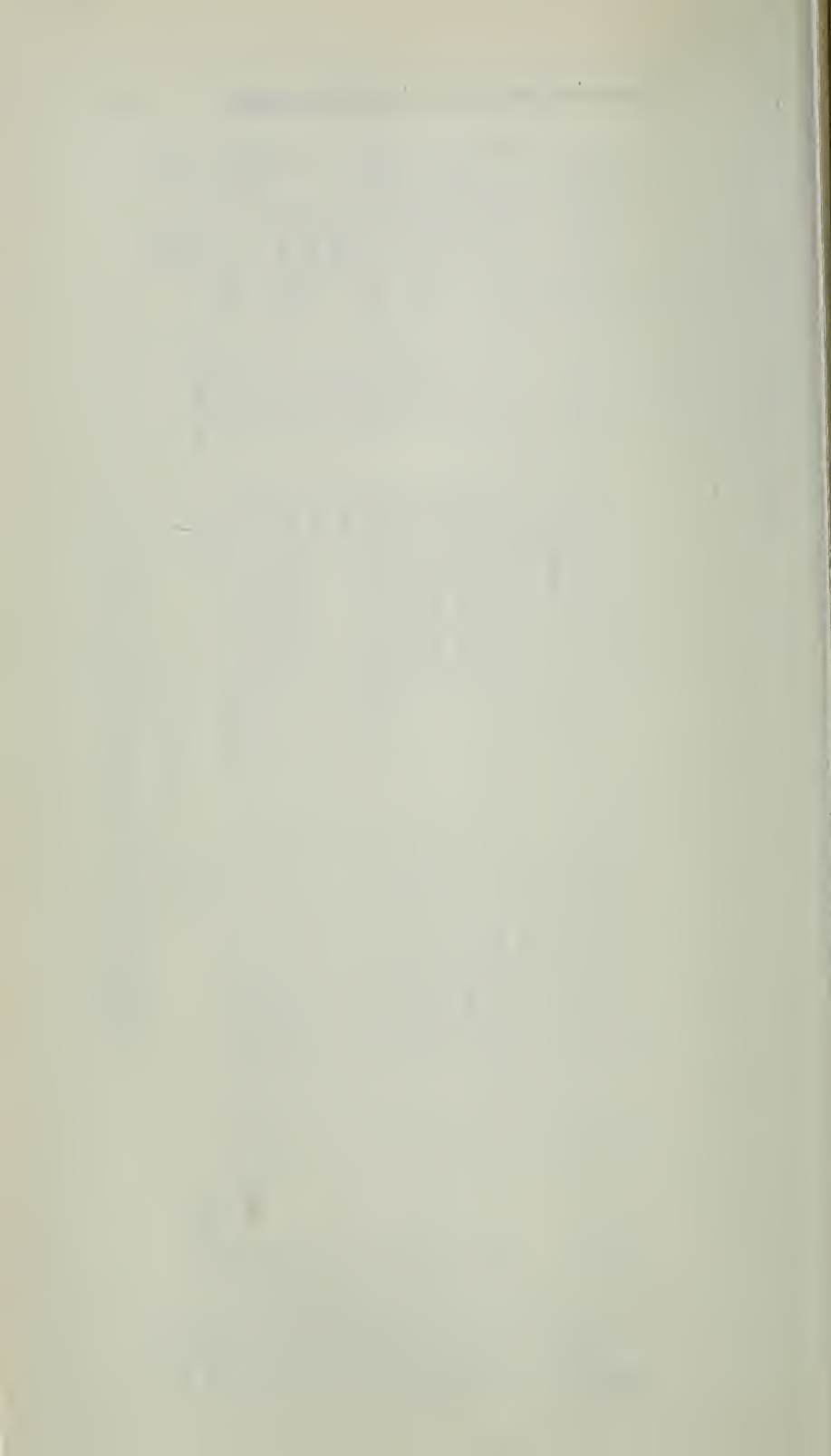
For Navy Department Bureau of Ships/Supplies
and Accounts

15	NXss-19076	12-5-42	Frequency Meters—LM 2,310		3,587,008.00
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PETITIONER'S EXHIBIT No. 4

1943 Order Summary

Job No.	Order No.	Order Date	Item	For	Quantity	Dollar Value
3	(5147W (5278W (5033W (6924R	2- 5-43	Parts.....	Bendix Aviation, Ltd.		\$ 7,680.51
1C	1951W	2-11-43	Variable Condensers.....	Bendix Aviation, Ltd.	25,000	75,500.00
2C	5045W	2-11-43	Antenna Kite.....	Bendix Aviation, Ltd.	28,000	281,960.00
1D	5220W	2-12-43	Variable Condensers.....	Bendix Aviation, Ltd.	6,400	19,328.00
16	TC-444025	3- 1-43	A-58 Phantom Antenna.....	Wright Field Signal Corps.....	1,118	44,585.84
9D	47526	3-27-43	Tuning Condensers.....	Kingston Products Corp.	16,950	48,833.00
17	5907-43	4- 6-43	Noise Filter.....	Navy Air Station	7	140.00
14	1292	4-30-43	Variable Condensers.....	Marine Radio Service, Ltd.....	1,500	5,175.00
12A	24213-PH-43	5-23-43	A-58 Phantom Antenna.....	Philadelphia Signal Corps	39	1,574.82
17	NXss-31380	6-14-43	Noise Peak Limiter Adaptor.....	Navy Dept., BuSandA	2,280	49,020.00
18-2	C-7307	6-17-43	Electronic Relay Development.....	Treasury Dept.	8	5,200.00



Petitioner's Exhibit No. 5—(Continued)

EXHIBIT "A"

LOAN AGREEMENT

1. The undersigned, Mission Bell Radio Mfg. Co., Inc., (hereinafter called the "Borrower"), has applied to California Bank, (hereinafter called the "Bank"), for a revolving credit to be used by the Borrower in whole or in part, repaid and used again as herein provided up to May 31, 1944 which is the final maturity date of all borrowings under this credit, provided always that the aggregate amount of loans hereunder outstanding at any one time shall not exceed \$400,000.00, and the Bank has agreed to make such loans to the Borrower subject to the terms and conditions herein contained, each such borrowing to be in the amount of \$25,000.00 or multiples thereof (unless the Bank shall otherwise agree), to be evidenced by a promissory note payable to the order of the Bank in the form customarily used by the Bank for similar transactions payable 90 days after date thereof or on May 31, 1944, whichever is earlier, and bearing interest at 4% per annum payable at the end of each calendar month.

2. To induce the Bank to make loans hereunder the Borrower represents, warrants and agrees that:

(a) The Borrower is and will continue to be a duly organized and existing corporation and is duly authorized to make and perform this Agreement and is and will continue to be duly authorized to execute and deliver the notes to be executed pur-

Petitioner's Exhibit No. 5—(Continued)

Exhibit "A"—(Continued)

suant hereto and the assignments, certificates and other instruments herein provided for at the time of each such delivery; and prior to the delivery of the first note hereunder the Borrower will deliver to the Bank, in form satisfactory to counsel for the Bank, the opinion of counsel for the Borrower that the Borrower is so organized and has such authority and that the officers designated in said opinion have authority to execute this Loan Agreement, said notes, assignments, certificates or other instruments herein provided for;

(b) Proceeds of the borrowings under this credit shall first be used to pay all loans and advances made to Borrower by the Bank prior to the execution of the Guarantee Agreement herein elsewhere referred to and thereafter to pay labor, material, and/or other costs or expenditures in performing War Production Contracts, (including expenditures for such equipment applicable to the contracts which upon completion of said contracts is to become the property of the United States Government), and to pay the installments of principal and interest, as they become due, on the obligation incurred by Borrower for the purchase of its plant;

(c) The financial statement of the Borrower as of April 30, 1943, heretofore furnished to the Bank, is true, correct and complete, and there has been no material adverse change in Borrower's financial condition since that date and, except for the liabil-

Petitioner's Exhibit No. 5—(Continued)

Exhibit "A"—(Continued)

ity, if any, which may result from the renegotiation of War Production Contracts, the Borrower has no contingent liabilities not provided for or disclosed in said financial statement and there is no litigation or governmental or other proceeding or matter presently pending or, to the knowledge of the officers of the Borrower, threatening against the Borrower.

3. The Bank is not obligated to make any loan hereunder unless at the time the Borrower applies for such loan:

(a) There shall have been no material adverse change in the financial condition of the Borrower from that stated herein;

(b) No litigation or governmental or other proceeding or matter (other than for the renegotiation of War Production Contracts), which if decided against the Borrower would substantially adversely affect the Borrower shall have been instituted against the Borrower or, to the knowledge of the Borrower, be threatened;

(c) Borrower shall have duly observed every condition and performed every agreement on its part herein set forth;

(d) The unpaid principal amount of all loans hereunder then outstanding, plus the loan applied for, shall not exceed the sum of:

(i) 25% of the aggregate dollar amount of the unfilled portion or portions of War Production Contracts which have not been cancelled or ter-

Petitioner's Exhibit No. 5—(Continued)

Exhibit "A"—(Continued)

minated, less the total amount of the inventory and materials referred to in (ii) below and the receivables referred to in (iii) below; plus

(ii) 70% of the cost of finished or unfinished inventory or raw materials acquired or produced in connection with War Production Contracts which have not been cancelled or terminated; plus

(iii) 90% of the receivables arising from deliveries of finished products in connection with War Production Contracts; plus

(iv) 50% of the reimbursable cost of finished or unfinished inventory or raw material acquired or produced in connection with War Production Contracts which have been cancelled or terminated—the War Production Contracts referred to in the foregoing sub-sections (i) to (iv) inclusive being contracts the proceeds of which are assigned to the Bank as herein provided and the term "War Production Contracts" being defined as hereinafter stated in this Agreement;

(e) The Borrower shall furnish to the Bank a certificate dated as of the date of such application certifying as to the continued existence of the conditions set forth in the foregoing sub-paragraphs (a) to (d), both inclusive;

(f) There shall have been no change in the management of the Borrower which the Bank considers materially adverse to its interests;

(g) A Guarantee Agreement covering the loans hereunder, pursuant to Regulation V and Executive

Petitioner's Exhibit No. 5—(Continued)

Exhibit "A"—(Continued)

Order No. 9112, shall then be in full force and effect, and there shall be no controversy under said Guarantee Agreement or any of the War Production Contracts referred to herein or therein, and the Guarantor shall be obligated by the Guarantee Agreement to purchase the "guaranteed percentage" of any and all of the Bank's loans hereunder as defined in the Guarantee Agreement and the Guarantor shall not have denied in writing that it is so obligated to make such purchase;

(h) A Guarantee Agreement or Agreements covering the loans hereunder executed by H. L. Hoffman, Walter D. Douglas II and G. Clifford Davidge or such of them as may be required by the Bank and Guarantor in connection with the guarantee referred to in sub-paragraph (g) of this paragraph (each of said Guarantors being severally liable thereon) in such form and for such amounts as may be satisfactory to the Bank and said Guarantor, shall then be in full force and effect.

4. All loans made hereunder shall be secured by assignment of proceeds of War Production Contracts which are now in full force and effect and are described in the attached Exhibit "A", including the proceeds of all amendments, additions and supplements thereto. The Borrower agrees that said War Production Contracts will not be amended, consolidated or rewritten, except upon request of the Government and in the event of such request the Borrower will notify the Bank of

Petitioner's Exhibit No. 5—(Continued)

Exhibit "A"—(Continued)

any changes in said War Production Contracts and if requested by the Bank the Borrower will provide the Bank with further or additional assignments to fully cover all such amendments, additions, consolidations or rewrites. The Borrower further agrees, upon request of the Bank, to assign to the Bank, in form and manner satisfactory to the Bank, all sums and amounts due and/or to become due under all War Production Contracts heretofore or hereafter entered into by Borrower and not described in attached Exhibit "A". For the purposes of this Loan Agreement the term "War Production Contract" shall be defined in the same manner as that term is defined in the Guarantee Agreement referred to in subsection (g) of paragraph numbered 3 hereof.

5. All moneys received by the Bank by virtue of any assignments executed and delivered pursuant to this Agreement shall, at the Bank's option either be applied directly toward the payment of any of Borrower's indebtedness to the Bank which is secured by such assignments or be deposited by California Bank in a special non-interest bearing account at said Bank in the name of the Bank as Assignee of the Borrower, which account shall be subject to the sole control of the Bank and such account and all moneys placed therein shall at all times be construed to be and the same are assigned to the Bank as security for all loans hereunder, including interest and any other amounts

Petitioner's Exhibit No. 5—(Continued)

Exhibit "A"—(Continued)

becoming due to the Bank from the Borrower. If such moneys shall be so deposited they shall be held until the balance in said account shall equal at least \$25,000.00, at which time \$25,000.00 of such balance or such greater amount, if any, as the Bank elects, shall be applied on any of such indebtedness; provided, however, that the Bank may at any time in its discretion apply on said indebtedness any lesser amount than in said account. As long as said Guarantee Agreement remains in effect, any such application shall be subject to the provisions thereof. If, notwithstanding any such assignment or assignments, any moneys, checks, drafts or orders for the payment of money shall be received by the Borrower direct from the other contracting party to any War Production Contract, the proceeds of which are assigned to the Bank as stated in this Agreement, such moneys, checks, drafts or orders for the payment of money shall be received by the Borrower in trust and shall not be intermingled with the general funds of Borrower and shall be immediately paid or delivered to the Bank for application in the aforesaid manner.

6. While any of the revolving credit granted to the Borrower under this Agreement is in use or available to it and so long as any of the notes evidencing loans under this Agreement are unpaid the Borrower agrees that:

(a) Without the prior written consent of the Bank and the prior written consent of the Federal

Petitioner's Exhibit No. 5—(Continued)

Exhibit "A"—(Continued)

Reserve Bank of San Francisco, as Fiscal Agent of the United States acting on behalf of the Guarantor named in the Guarantee Agreement herein referred to, the Borrower will not

(i) Create or incur any indebtedness other than for normal operating requirements of its business, or borrow funds other than from the Bank under the credit provided for in this Agreement, or request, or take or accept advances, or advance payments, or loans on any of its War Production Contracts;

(ii) Further mortgage, pledge, hypothecate or otherwise encumber any of its assets except to the Bank;

(iii) Make any expenditures for land, buildings, machinery, equipment and/or other fixed assets except expenditures for such equipment applicable to the contracts which upon completion of said contracts is to become property of the United States Government;

(iv) Declare or pay any cash dividends upon its capital stock or acquire any of its outstanding stock or otherwise make any change in its capital structure, or merge or consolidate with or into any other corporation, or convey, sell, lease or transfer assets the ownership of which is necessary to the continuance of its business;

(v) Assume any liability by way of guarantee, endorsement or otherwise, on obligations of others;

Petitioner's Exhibit No. 5—(Continued)

Exhibit "A"—(Continued)

(vi) Make any loans to, or for, its officers, directors or stockholders;

(vii) Make, directly or indirectly, any investment of any kind in, or advance of any kind to, any other business organization whether conducted by an individual, partnership, corporation or association;

(viii) Permit Borrower's officers and/or directors to withdraw more than the aggregate sum of \$1,500.00 cash per calendar month as salaries, or to make any cash payments to Borrower's officers or directors as fees, bonuses or otherwise except pursuant to agreements which were already in effect on January 1, 1943;

(ix) Permit its net working capital, as calculated by good accounting practice, to be reduced below \$30,000.00 and in such calculation of net working capital the tax reserves hereinafter provided for shall be treated as current liabilities;

(x) Enter into any new contract involving more than \$50,000.00 as the total contract price except when requested or required by the United States Government;

(b) At the end of each monthly period the Borrower will provide reserves for State and Federal income, surtax and excess profits taxes applicable against earnings accrued to date to the best of its knowledge and in accordance with accepted accounting principles;

Petitioner's Exhibit No. 5—(Continued)

Exhibit "A"—(Continued)

(c) The Borrower will maintain insurance cover as satisfactory to the Bank at all times;

(d) The Borrower will duly pay and discharge all taxes, assessments and governmental charges levied upon or against it, including (but not by way of limitation) Federal income and excess profits taxes and all real and personal property taxes when and as such taxes shall become due and payable, unless and to the extent only that such taxes shall be contested in good faith by the Borrower;

(e) Any indebtedness of the Borrower in favor of stockholders, officers and/or directors of the Borrower shall be subordinated to all loans made hereunder;

(f) Within sixty (60) days after the end of each month, or as often as the Bank may reasonably request, the Borrower will provide the Bank with a monthly report of its affairs in duplicate, including balance sheet, profit and loss statements for the month and for the year to date, together with the usual supporting schedules, and complete information concerning all cancelled War Production Contracts, if any, and Borrower will also furnish to the Bank, if the Bank so requests, copies of an annual audit of the accounts of the Borrower as prepared by an independent accountant satisfactory to the Bank, including the certificate and accompanying comment of such accountant. The Borrower will permit the Bank or its

Petitioner's Exhibit No. 5—(Continued)

Exhibit "A"—(Continued)

authorized representatives at any reasonable times to examine the books and records of the Borrower and to take memoranda and extracts therefrom;

(g) To the extent that the furnishing thereof shall not violate any Federal law or regulation, the Borrower will notify the Bank of any breach, termination, violation or cancellation of or material adverse change in any War Production Contract to which the Borrower is a party. Any such notice shall be delivered to the Bank within ten (10) days after the occurrence of the event to which such notice relates. The Borrower will promptly give the Bank notice of any litigation, or governmental or other proceeding or matter in which the Borrower is involved;

(h) The Borrower will at all times conduct its business in an efficient and businesslike manner and will preserve and maintain all buildings and equipment (except as may no longer be necessary or desirable in the conduct of its business), in thorough repair, working order and condition, and from time to time will make all needful and proper repairs, renewals, replacements, additions and betterments;

(i) Borrower will punctually pay all principal and interest as the same falls due on all notes executed pursuant to the terms of this Agreement; provided, however, that the Borrower shall have ten days within which to pay any note which shall

Petitioner's Exhibit No. 5—(Continued)

Exhibit "A"—(Continued)

become immediately due and payable because of the termination of suspension of maturity in accordance with the provisions of sub-paragraph (c) of Section 6 of said Guarantee Agreement;

(j) Should the Guarantor named in the Guarantee Agreement hereinbefore referred to request the modification of this Loan Agreement in any respect, then the Borrower will upon request of the Bank give its written consent to such modification;

(k) The Borrower agrees that in the event it obtains a suspension of maturity pursuant to Section 6 of the Guarantee Agreement in respect of a portion of the indebtedness evidenced by any Note in favor of the Bank, it will, upon request of the Bank, execute two Notes in exchange for such Note, one of which new Notes will evidence the suspended portion of the Note so exchanged and the other the unsuspending portion of the Note so exchanged. Each such new Note shall bear the same date as, and the same specified maturity as, the Note so exchanged.

7. In the event of the breach by the Borrower of any agreement herein or hereafter made or if any statement or representation furnished in connection herewith or pursuant hereto shall be or shall become untrue; or in the event of the cancellation of any of the Borrower's War Production Contracts for any reason other than the convenience of the United States Government; or if there

Petitioner's Exhibit No. 5—(Continued)

Exhibit "A"—(Continued)

shall be any change in the financial condition of the Borrower which the Bank considers materially adverse; or in the event the Guarantee Agreement to the Bank shall at any time not be in full force and effect or the Guarantor thereunder shall fail to refuse to comply with all of its obligations thereunder; or in the event that the Borrower shall commence or become a party to any proceedings under the United States Bankruptcy Laws in which it is alleged that the Borrower is bankrupt or in which the benefit of the provisions of any bankruptcy statute are claimed by or for the Borrower; or in the event of the insolvency of the Borrower or of the appointment of a Receiver for the Borrower's assets or business or of the voluntary dissolution of the Borrower; or if there shall be a seizure or other appropriation by the United States, or any of its agencies, of any of the property of the Borrower, if such seizure or appropriation shall adversely affect the operations of the Borrower; then in either or any of such events the Bank may, at its option and without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived, declare all indebtedness of the Borrower to the Bank immediately due and payable, anything to the contrary contained herein or in any note or in the Guarantee Agreement or in any other documents notwithstanding, subject, however, to the consent of the Guarantor if and as such

Petitioner's Exhibit No. 5—(Continued)

Exhibit "A"—(Continued)

consent shall be required under the Guarantee Agreement.

8. No delay on the part of the Bank in the exercise of any power or right shall operate as a waiver thereof, nor shall any single or partial exercise of any power or right preclude other or further exercise thereof, or the exercise of any other power or right, and nothing in this Agreement shall obligate the Bank to take action in event of default.

9. All money and property of the Borrower at any time in the possession or control of the Bank shall be subject to set-off, and are hereby pledged to the Bank as security for all liabilities of the Borrower to the Bank whether or not and however such liabilities may be secured.

10. The right to plead any and all statutes of limitations as a defense to any demand or action or proceeding to recover upon any note executed to this Loan Agreement is hereby waived.

11. The proceeds of each loan made hereunder shall, at the option of the Bank, be credited to the Borrower's account in the California Bank and such crediting shall be construed as delivery of such proceeds to the Borrower.

12. This Agreement and the notes hereunder shall be governed by the laws of the State of California.

Petitioner's Exhibit No. 5—(Continued)

Exhibit "A"—(Continued)

13. The benefits of this Agreement shall extend and be available to each holder of the notes hereunder.

Dated at Los Angeles, California, as of July 10, 1943.

MISSION BELL RADIO MFG.
CO., INC.,

By /s/ H. L. HOFFMAN,

By /s/ R. A. YARCHO,

CALIFORNIA BANK,

By /s/ (Illegible.)

EXHIBIT "A"

SCHEDULE OF ASSIGNED CONTRACTS

Date, 9/22/42; Contract No., W-2124-sc-6519; Department: Army; Description: Phantom Antenna; Original Amount: \$333,549.60. Contracting Officer—First Lieut. Allan Hill.

Date: 12/5/42; Contract No.: NXss-19076; Department: Navy; Description: Frequency Measuring Radio Equipment; Original Amount: \$1,540,000.00 (Estimated). (Letter of Intent.) Contracting Officer: C. C. Jaquette, (Purchasing Officer.) Price to be negotiated.

Respondent's Exhibit B—(Continued)

Treasury Department
Internal Revenue Service
Los Angeles 13, Calif.

August 30, 1943

Salary Stabilization Unit
Suite 770, Subway Terminal Bldg.
ENH

Mission Bell Radio Mfg. Co., Inc.
3430 South Hill Street
Los Angeles, California

Attention: Mr. R. A. Yarcho, Secretary

Sirs:

Reference is made to your letter dated August 9, 1943, requesting approval of salary rate ranges for eight positions in your company.

Based on the information furnished approval is hereby given to the following salary rate ranges for the positions indicated:

	Monthly Rate	
Purchasing Agent	\$250	\$400
Outside Production Supervisor	250	450
Expeditor	250	400
Section Engineer	350	500
Senior Engineer	275	350
Junior Engineer	225	275
Draftsman (Engineer)	225	300
Sales Engineer	400	500

It is understood that increases made under the authority of the approval of this salary rate schedule shall not be used as a basis for other wage or salary adjustments, or to increase the level of

Respondent's Exhibit B—(Continued)

production costs appreciably or furnish the basis either to increase prices or to resist otherwise justifiable reductions in prices.

Increases in the basis compensation of employees in any of the foregoing groups are restricted to your established practice as to frequency, and no individual is to receive a merit increase in a twelve-month period in excess of 15% of his salary on the year's beginning date. It is not contemplated that approval of these ranges is an authorization to make blanket increases contrary to your established practice or to increase the weighted average salary paid to each job classification in excess of 3%.

This ruling is based upon the information contained in your letter referred to above. If the information is subsequently found to be incorrect, this ruling shall have no force or effect.

By direction of the Commissioner:

/s/

Head, Los Angeles Office.

ring.

Respondent's Exhibit B—(Continued)

National War Labor Board
Tenth Region

1355 Market Street
San Francisco, California

Date of Board Action, March 20, 1943

In the Matter of: Mission Bell Radio Manufacturing Company, Incorporated: Case No. 10-529
(Los Angeles, California)

AUTHORIZATION

The Regional War Labor Board for the Tenth Region, acting as the duly authorized agent of the National War Labor Board and pursuant to the powers vested in said Board by Executive Order 9017 of January 12, 1942 and 9250 of October 3, 1942, hereby unanimously approves with modifications the requested wage adjustments filed December 22, 1942 by Mission Bell Radio Manufacturing Company, Incorporated, effective as of March 20, 1943 with the following modifications:

Classification	Approved Rate
Material Control	
Storekeeper.....	\$1.00
Shipping Clerk.....	1.00
Receiving Clerk.....	1.00
Purchasing Clerk.....	.73
Engineering	
Junior Engineers.....	\$1.00
Receiving Inspector.....	.80 to \$1.00

Respondent's Exhibit B—(Continued)

Classification	Approved Rate
Office	
Bookkeeper.....	\$.84
Accountant.....	1.11
Timekeeper.....	.85
Stenographer.....	.73
Secretary.....	.84
Switchboard Operator.....	.73
Factory—General	
First Week.....	\$.60
2nd to 11th Week, Inclusive.....	.65
12th to 23rd Week, Inclusive.....	.70
24th Week and up.....	.75
Specialized Labor.....	\$.05 to \$.25 over Basic Rate
Punch Press & Machine Operator.....	.05 over basic
Line Inspectors.....	.05 over basic
Condenser Adjuster.....	.10 over basic
Power Solderer.....	.10 over basic
Line Mechanics.....	.25 over basic
Radio Assemblers.....	.10 over basic
Group Leaders.....	\$.10 over basic
Maintenance Engineers.....	1.00 to \$1.20
Head Carpenter.....	1.20
Carpenter.....	.90
Carpenter's Helper.....	.75
Mechanic.....	.90 to \$1.35
Tool Maker.....	1.40 to 1.50*
Personnel Manager.....	\$225 to \$275.00 per mo.

* Not more than 10% of total number of employees in this classification may be paid at rates over \$1.45.

TENTH REGIONAL WAR LABOR BOARD

By
Chairman.

Respondent's Exhibit B—(Continued)

Treasury Department
Internal Revenue Service
Los Angeles 13, Calif.

Salary Stabilization Unit
Suite 770, Subway Terminal Bldg.
ENH.

August 30, 1943

Mission Bell Radio Mfg. Co., Inc.
3430 South Hill Street
Los Angeles, California

Attention: Mr. R. A. Yarcho, Secretary.

Sir:

Reference is made to your letter dated August 9, 1943, requesting approval to pay additional compensation to your employees due to an extension of the work week from 44 to 48 hours.

Based on the information furnished, approval is hereby given for payment of additional compensation per month to employees in the following salary classifications, so long as they are required to work 48 hours per week, and represents payment for work performed on the sixth consecutive day in any work week:

Up to \$199—per month. Time and one-half.

Over \$200, but not over \$249 per month, 80% of time and one-half.

Over \$250, but not over \$299 per month, 60% of time and one-half.

Respondent's Exhibit B—(Continued)

Over \$300, but not over \$324 per month, 40% of time and one-half.

Over \$325, but not over \$349 per month, 20% of time and one-half.

The number of dollars of increase granted is understood to include all payments to which the employee is entitled under any Federal or State law, or Executive order.

It is understood that the adjustments hereby approved shall not be used as a basis for other wage or salary adjustments or to increase the level of production costs appreciably or furnish the basis either to increase prices or to resist otherwise justifiable reductions in prices.

This ruling is based upon the information contained in your letter referred to above. If the information is subsequently found to be incorrect, this ruling shall have no force or effect.

By direction of the Commissioner:

/s/
Head, Los Angeles Office.

rng.

CERTIFIED COPY OF RESOLUTION

“Whereas, it is deemed to be to the best interests of this corporation that its articles of incorporation be amended to adopt a new name.

“Now, Therefore, Be It Resolved that the articles of incorporation of this corporation, Mission Bell

Respondent's Exhibit B—(Continued)

Radio Mfg. Co., Inc., a California corporation, be and they hereby are amended so that Article One thereof, which now reads: 'The name of this corporation is Mission Bell Radio Mfg. Co., Inc.' shall read as follows: 'The name of this corporation is Hoffman Radio Corporation.'

"Resolved Further that the foregoing amendment is advisable and that the president or vice-president and the secretary or an assistant secretary of this corporation be and they hereby are authorized, empowered and directed to procure the approval of this resolution by the vote or written consent of the shareholders of this corporation holding at least a majority of the voting power, regardless of limitations or restrictions on the voting power thereof, and thereafter to execute and verify by their oath and to file a certificate in the form and manner required by Section 362-B of the California Civil Code, and in general to do any and all things necessary to effect such amendment in accordance with all provisions of law applicable thereto."

The undersigned, R. A. Yarcho, hereby certifies that he is now and at all the times herein mentioned was the duly appointed and acting secretary of Mission Bell Radio Mfg. Co., Inc.; that the foregoing is a full, true and correct copy of a resolution of the board of directors of Mission Bell Radio Mfg. Co., Inc., adopted at a special meeting of the directors thereof held on November 3, 1943;

Respondent's Exhibit B—(Continued)

that said resolution is now in full force and effect and has not been modified, repealed, supplemented or amended.

The undersigned hereby further certifies that the corporate name of Mission Bell Radio Mfg. Co., Inc., was changed to Hoffman Radio Corporation by amendment to the articles of incorporation of Mission Bell Radio Mfg. Co., Inc., filed in the office of the Secretary of State of the State of California on November 12, 1943. A certified copy of said certificate of amendment of articles of incorporation was filed in the office of the County Clerk of Los Angeles County, California, November 15, 1943.

In Witness Whereof, the undersigned has executed this certification and hereunto affixed the corporate seal of Hoffman Radio Corporation this 14th day of March, 1944.

(Seal) /s/ R. A. YARCHO,

Secretary of Hoffman Radio Corporation, formerly
Mission Bell Radio Mfg. Co., Inc.

HOFFMAN RADIO CORPORATION

Item 28. Amortization of Emergency Facilities:

Building under C. of N.....	\$ 5,500.02
Special Construction and Equipment spread over Contract to become property of Navy on Contract completion	34,446.00
	<hr/>
	\$39,946.02

Respondent's Exhibit B—(Continued)

Item 29. Other Deductions:

Real Estate Expense	\$ 133.91
R. C. A. License charge off.....	760.92
Officers Travel—War Orders	5,293.18
Property Maintenance, Repair and Upkeep.....	4,529.29
Postage, Stationery and Supplies.....	6,201.73
Dues and Subscriptions	1,046.46
Telephone and Telegraph.....	7,823.48
Legal Fees	3,500.53
General Administration Expense	2,253.05
Advertising	6,872.38
Insurance Expense	1,242.00
Contributions	1,506.79
Employees Trust Fund	10,507.53
	<hr/>
	\$51,671.25

Schedule A. Other Costs:

Freight in	\$ 9,524.70
Production Supplies for Eleven Contracts.....	22,256.23
Special Production Materials	4,115.46
Emergency Expense	9,779.39
Employee Relationship Expense	7,413.70
Factory and Janitor Supplies.....	6,184.80
Heat, Light and Power.....	3,134.17
Rent	6,622.84
Insurance Expense	5,342.03
Repair, Upkeep and Maintenance.....	7,091.80
Small Tools	2,720.35
Truck and Auto Expense.....	2,908.47
Amortization of Dies and Jigs.....	11,952.09
Remodeling Expense	27.88
Less Miscellaneous Receipts	3,103.37
	<hr/>
	\$95,970.54

Any decrease in the excess profits tax under Chapter 2-E will result in a reduction in the amount of the post-war credit computed under Sections 780 and 781 of the Internal Revenue Code. In accordance with the provisions of Section 781

Respondent's Exhibit B—(Continued)

(b) of the Internal Revenue Code, any post-war refund bonds previously issued for the year involved are to be made available, where necessary, in order to effect the reduction. After receiving notification of the conclusion of the renegotiation settlement the Commissioner of Internal Revenue will request the taxpayer to return the bonds. If refund bonds are not made available for the purpose of the required reduction, the amount of such reduction shall be paid by the taxpayer to the United States.

Please furnish this office, in duplicate, as soon as the renegotiation settlement is finally concluded, the amount of the offsetting tax credit allowed in the settlement.

Very truly yours,

/s/ GEORGE D. MARTIN,
Internal Revenue Agent in Charge.

BIS:vs co this letter enclosed to taxpayer.

Respondent's Exhibit B—(Continued)

(Return)

417 South Hill Street

October 23, 1944

LA:FA:EIS

In re: Hoffman Radio Corporation, 3430 South Hill Street, Los Angeles, California. Year ended December 31, 1943.

Army Service Forces
Signal Corps Analysis Agency
169 11th Street
San Francisco 3, California

Gentlemen:

Reference is made to the renegotiation of war contracts in the above designated case, involving an offsetting tax credit, as provided in section 3806(b) of the Internal Revenue Code, against the amount of the excessive profits to be eliminated to the extent by which the taxes for the taxable year are to be decreased by reason of the application of the provisions of paragraph 1 of subsection (a) of section 3806.

On the basis of the retained copies of returns presented by the taxpayer for the above-mentioned taxable year, and upon the understanding that profits in the amount of \$51,192.00, which have been determined to be excessive were included in income in the returns, and amounts by which the taxes for the taxable year covered by such returns are decreased by reason of the application of para-

Respondent's Exhibit B—(Continued)

graph (1) of subsection (a), for the purposes of section 3806(b)(1) of the Internal Revenue Code, are as follows:

Income tax and surtax, Chapter 1, None; surtax, Chapter 2A, None; declared value excess profits tax, Chapter 2B, \$782.57; tax under Chapter 20, None; excess profits tax, Chapter 2E, \$43,448.84; aggregating \$44,231.41. Provided, it be further understood that the computation of the foregoing amounts has been based upon the assessments made to date of such taxes, whether or not paid.

War Department
Headquarters, Army Service Forces
Office of the Chief Signal Officer
Washington, D. C.

SPSFD

18 December, 1944

[Stamp]: Received Dec. 26, 1944. Internal Revenue Agent in Charge, Los Angeles Division.

Internal Revenue Agent in Charge,
Internal Revenue Service,
417 South Hill Street,
Los Angeles 13, Calif.

Re: Hoffman Radio Corporation, 3430 South Hill Street, Los Angeles, California.

Dear Sir:

This is to advise that a tax credit allowance of \$44,231.41 as set forth in your letter of 23 October, 1944, file LA:FA:EIS, has been applied as a

Respondent's Exhibit "B"—(Continued)

credit against the payment under the terms of Renegotiation Agreement W-49-073-sc-PAS-151 with the above company for the taxable year ended 31 December, 1943.

Very truly yours,

/s/ M. F. SAIKLEY,
Major, Signal Corps,
Fiscal Division.

(Return.)

417 South Hill Street
January 15, 1945

LA:FA:EIS

In re: Hoffman Radio Corporation, 3430 South Hill Street, Los Angeles, California. Year: 1943.

Commissioner of Internal Revenue,
Washington 25, D. C.

Attention: IT:C 1:CC.

In accordance with instructions contained in paragraph 8 of Com. Mim. R. A. No. 1294, dated July 5, 1943, this letter is forwarded. There is impressed hereon the appropriate stamp disclosing the amount of offsetting credit under Section 3806 (b) of the Code allowed the taxpayer in contract renegotiation settlement covering the year 1943.

The stamp has been accomplished also in accordance with instructions contained in paragraph 8 of the mimeograph, and has, as required by the

Respondent's Exhibit "B"—(Continued)

mimeograph, been impressed upon the necessary returns of the taxpayer.

/s/ GEORGE D. MARTIN,
Internal Revenue Agent in Charge.

EIS:vs

[Stamp]: Int. Rev. Agt. in Charge of Los Angeles Division, Credit Sec. 3806(b), I.R.C., \$44,231.41. Tax Year, 1943. Chap. 2B, \$782.57. Chap. 2E, \$43,448.84. Notification date: 12/18/44.

Treasury Department
Office of Commissioner of Internal Revenue
Washington

IT:C1:CC

NOTICE OF ALLOWANCE OF TENTATIVE
AMORTIZATION ADJUSTMENT

[Stamp]: Revenue Agent in Charge, Los Angeles Division. Received Apr. 1, 1946.

Allowed: \$4,915.54.
Year: 1943. (Conf.)
Schedule No.: AM 11.

Hoffman Radio Corporation
3430 South Hill Street
Los Angeles 7, California

Gentlemen:

Overassessment: Excess Profits Tax \$5,416.71
Less: Post-war Credit Reduction... 546.17

Your application for Tentative Adjustment with respect to Amortization Deduction, under section

Respondent's Exhibit "B"—(Continued)

124 of the Internal Revenue Code, as amended by section 7 of the Tax Adjustment Act of 1945, has been allowed in the amount and for the year stated above. Such amount has been abated, credited, or refunded in accordance with the status of your tax accounts for the year(s) involved, as indicated below.

This allowance is a tentative adjustment and subject to change upon final audit and determination of the tax liability for the year involved.

To the extent your application is not allowed for the year indicated above, it is disallowed, and this is the notice of disallowance.

A check for the amount refundable, together with allowable interest, is transmitted herewith. The interest must be included in your income tax return for the year or period in which received.

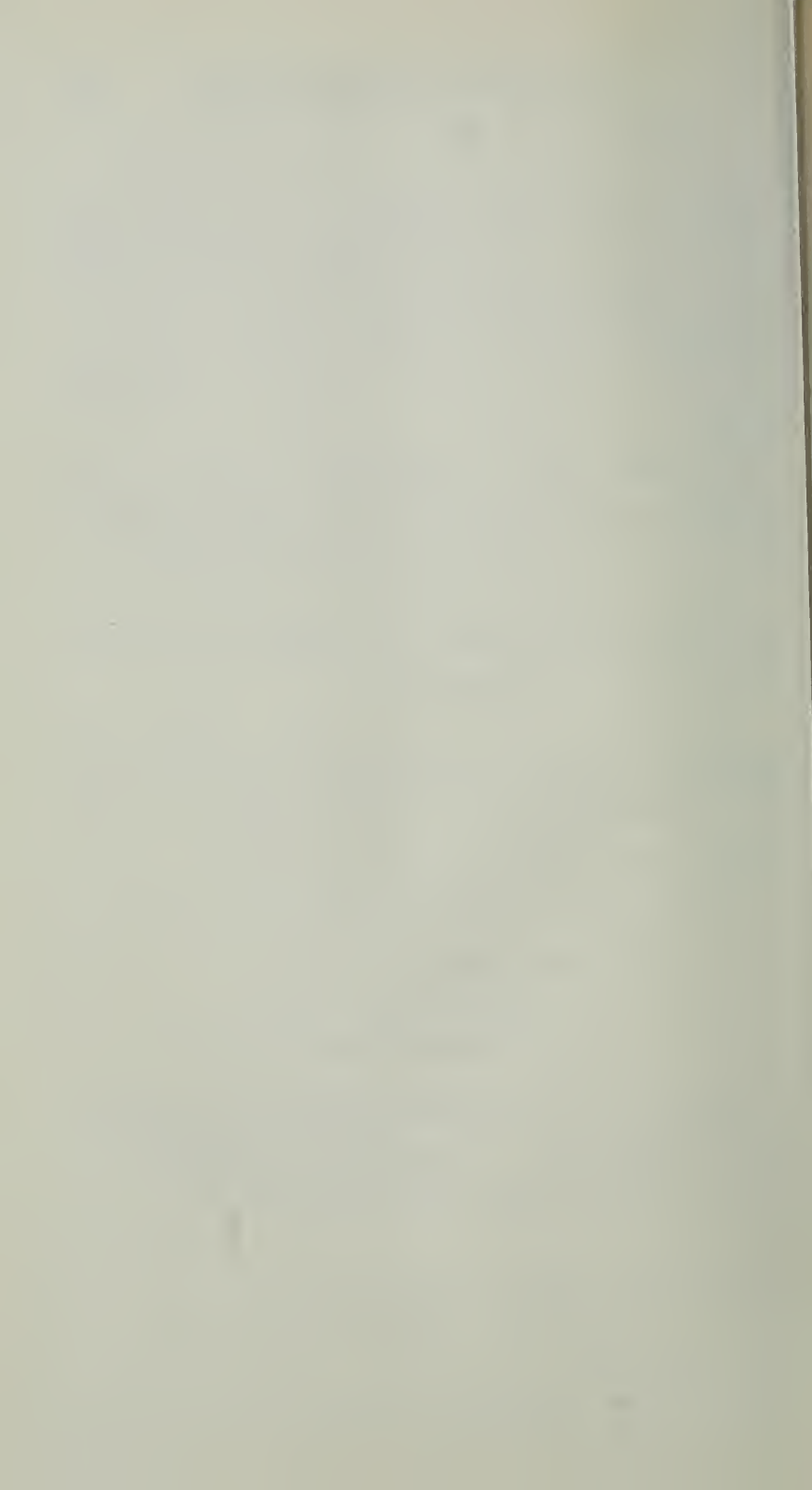
By direction of the Commissioner:

Very truly yours,

.....,

Deputy Commissioner.

Abated: \$. . . . Credited: \$4,915.54, to tax year 1944. Credited: \$. . . . to tax year. Refunded: \$. . . . Interest: \$327.70. Form 7781. Nov. 7, 1945.



APPLICATION FOR TENTATIVE ADJUSTMENT WITH RESPECT TO AMORTIZATION DEDUCTION

(Under section 127 of the Internal Revenue Code, as amended by section 7 of the Tax Adjustment Act of 1945)

FOR USE BY CORPORATIONS WHICH—

- (1) Have elected to terminate the amortization period with respect to an emergency facility; and
- (2) Desire a tentative adjustment with respect to the amortization deduction.

THIS FORM MUST BE FILED WITH THE COLLECTOR OF INTERNAL REVENUE WHERE ASSESSMENT WAS MADE OR TAX PAID

PRINT PLAINLY CORPORATION'S NAME AND ADDRESS

HOFFMAN RADIO CORPORATION

3430 SOUTH HILL STREET

LOS ANGELES 7, CALIFORNIA

COLLECTOR'S STAMP

Date Received

INT

112153

Item and Instruction No.:

1. Taxable year in which this application is filed:
 - (a) Calendar year 1945, or
 - (b) Fiscal year beginning 194, and ending 194.
2. Taxable years prior to the taxable year stated in Item 1 which are affected by the revised amortization deduction Calendar Years 1943 and 1944
3. Description of facility and amortization period:

(a) Facility	(b) Necessity Certificate No.	(c) Date on which amortization period began	(d) Date on which statement of election to terminate amortization period was filed	(e) Date on which amortization period ended under section to terminate	(f) Authority for terminal amortization period. (If non-necessity certificate show number and date)
* Land	NI-N-6239	7-1-43	10-8-45	9-30-45	Proclamation
* Building	"	"	"	"	"
* Power Equipment	"	"	"	"	"

* See copy of Certificate of Necessity attached for description.

If more space is needed, list data on separate sheet of paper and attach to this application.

4. Amount by which taxes previously determined for each taxable year specified in Item 2 are increased or decreased by reason of the revision of the amortization deduction and any related adjustments. (Attach schedule showing computation of the taxes previously determined and of the increases or decreases in such taxes.)

Taxable Year Ended	Income Tax		Declared Value Excess-Profits Tax		Excess Profits Tax	
	Increase	Decrease	Increase	Decrease	Increase	Decrease
12-31-43	\$ 3,121.30	\$ -	\$ None	\$ None	\$ -	\$ 4,915.00
12-31-44	7.53	-	None	None	-	9,769.00

If any other tax is affected by reason of the revision of the amortization deduction, attach schedule showing increases or decrease in such tax previously determined.

5. Unpaid amount of each tax (including any installments not yet due) for each taxable year specified in Item 2:

Taxable year ended	Amount unpaid			
	Income Tax	Declared Value Excess-Profits Tax	Excess Profits Tax	Other Tax (Specify Tax)
12-31-44	\$ 750.81	\$ None	\$ 76,940.95	\$ None

We, the undersigned, president (or vice president, or other principal officer) and treasurer (or assistant treasurer, or chief accountant officer) of the corporation for which this application is made, being severally duly sworn, each for himself deposes and says that this application (including any accompanying schedules and statements) has been examined by him and is, to the best of his knowledge and belief a true and complete statement, made in good faith, pursuant to the Internal Revenue Code and the regulations issued thereunder.

Subscribed and sworn to before me this 16 day of Oct, 1945

Hoffman
(Signature of President, Vice President, or other principal officer)

Reynolds
(Signature of Treasurer, or Chief Accounting Officer)

(Notarial Seal)
Pearl Anderson

NOTARY PUBLIC
In and for the County of Los Angeles, State of California

(Corporate Seal)

Respondent's Exhibit "B"—(Continued)

CERTIFICATE

I hereby certify that this Application for Tentative Adjustment With Respect to Amortization Deduction, Form 1140, was prepared by me on behalf of the taxpayer and that the facts stated therein are true and correct to the best of my knowledge and belief.

/s/ M. HAYES HALLOCK,

With: Claude I. Parker Partnership, 808 Bank of America Building, Los Angeles 14, California.

Respondent's Exhibit B—(Continued)

HOFFMAN RADIO CORPORATION

APPLICATION FOR TENTATIVE ADJUSTMENT WITH
RESPECT TO AMORTIZATION DEDUCTION

Emergency Facilities Certified in Certificate No. ND-N-6239:

Cost per Certificate of Necessity:

Land—3751 South Hill Street

Los Angeles\$14,000.00

Building—3751 South Hill Street,

Los Angeles 37,000.00

Power Equipment—3751 South Hill

Street, Los Angeles 4,000.00

\$55,000.00

Actual Cost of above Facilities acquired 6/18/43.....\$55,472.23†

55,912.08?*

The above difference is accrued taxes, escrow charges, etc.

Amortization Period as Commuted:

Date Amortization began—7-1-43

Date Amortization ended—9-30-43

Number of Months in Commuted Period:

Year 1943—7/1/43 - 12/31/43 6 Months

Year 1944—1/1/44 - 12/31/44 12 Months

Year 1945—1/1/45 - 9/30/45 9 Months

Total..... 27 Months

Monthly Amortization of Cost under Commuted Period:

\$55,472.23 ÷ 27 =\$ 2,054.527 2,070.817*

Recomputed Amortization Deduction:

Taxable year 1943\$12,327.16 12,424.91*

Taxable year 1944 24,654.32 24,849.81*

Taxable year 1945 18,490.75 18,637.36*

\$55,472.23

55,912.08*

† Figures 472.23 circled in pencil.

* Figures in pencil.

Respondent's Exhibit B—(Continued)

HOFFMAN RADIO CORP.

APPLICATION FOR TENTATIVE ADJUSTMENT WITH RESPECT
TO AMORTIZATION DEDUCTION ADJUSTMENTS UNDER
SECTION 124(d) (5)

YEAR 1943

INCOME TAX 1943

31	Net Income Item 31—Form 1120.....		\$211,857.16
	Renegotiation Adjustment 11/15/44 .....	(	51,192.00)
	Amortization Deduction—Recomputed	\$	12,327.16
	Amortization Deduction—Return	5,500.02	(6,827.14)
		<hr/>	<hr/>
31	Net Income for Declared Value E. P. Tax—revised.....		\$153,838.02
	Declared Value	\$	2,000,000.00
	10% Declared Value	\$	200,000.00
	Credit for Dividends Received.....		.....
		<hr/>	<hr/>
	Subject to Tax .....		.....
	Declared Value Excess Profits Tax.....	None	
	Tax Assessed and Paid—Return \$782.57		
	Credit Under Sec. 3806.....	782.57	None
		<hr/>	<hr/>
	Adjustment Under Sec. 124(d) (5)		None
31	Net Income as Revised above.....		\$153,838.02
32	Interest on Obligations of U. S.....		.....
34	Declared Value Excess Profits Tax.....		.....
		<hr/>	<hr/>
35	Net Income		\$153,838.02
36	Interest on U. S. Obligations.....		.....
		<hr/>	<hr/>
37	Adjusted Net Income		\$153,838.02
38	Income subject to Excess Profits Tax	\$	141,907.28
39	Dividends Received Credit		141,907.28
		<hr/>	<hr/>
40	Normal Tax Net Income.....		\$ 11,930.74

Respondent's Exhibit B—(Continued)

INCOME TAX—1943—(Continued)

NORMAL TAX

\$5,000.00 at 15%.....	\$ 750.00	
6,930.74 at 17%.....	1,178.23	\$ 1,928.23

Net Income—Item 35—Revised		\$153,838.02
----------------------------------	--	--------------

Income subject to Excess Profits Tax.....	\$141,907.28	
---	--------------	--

Dividends Received Credit		141,907.28
---------------------------------	--	------------

Surtax Net Income		\$ 11,930.74
-------------------------	--	--------------

SURTAX at 10%	\$ 1,193.07	
---------------------	-------------	--

Normal Tax	\$ 1,928.23	
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Surtax	1,193.07	\$ 3,121.30
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42 Credit for Foreign Taxes.....		
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43 Balance of Income Tax.....		\$ 3,121.30
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Income tax due as above.....		\$ 3,121.30
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Taxes previously assessed and paid		
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Income tax per return		
-----------------------------	--	--

Credit under Sec. 3806		
------------------------------	--	--

Adjustment under Sec. 124(d) (5).....		\$ 3,121.30
---------------------------------------	--	-------------

EXCESS PROFITS TAX—1943

1 Excess Profits Net Income—Form 1121.....		\$211,074.59
--	--	--------------

Renegotiation Adjustment		(51,192.00)
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Amortization Deduction—Recomputed ...	\$ 12,327.16	
---------------------------------------	--------------	--

Amortization Deduction—Return	5,500.02	(6,827.14)
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Adjustment declared value excess profits tax	782.57	
--	--------	--

1 Excess Profits Net Income—Revised.....		\$153,838.02
--	--	--------------

2 Specific Exemption	\$ 5,000.00	
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3 Excess Profits Credit	4,576.37	
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5 Unused Excess Profits Credit (Return)....	2,354.37	11,930.74
---	----------	-----------

8 Adjusted Excess Profits Net Income.....		\$141,907.28
---	--	--------------

Respondent's Exhibit B—(Continued)

EXCESS PROFITS TAX—1943—(Continued)

9	Tax at 90%	\$127,716.55	
10	Net Income (Item 35 Form 1120) Revised.....		\$153,838.02
11	Dividends Received Credit		
12	Surtax Net Income without Sec. 26(e) Credit.....		\$153,838.02
13	80% Item 12		\$123,070.42
14	Income Tax under Chapter 1.....		3,121.30
15	Excess of 13 over 14.....		\$119,949.12
16	Item 9 or 15 whichever is lesser.....		\$119,949.12
17	Amount Deferred under Sec. 710(a) (5).....		
18	Excess Profits Tax		\$119,949.12
19	Credit for Foreign Taxes		
20	.....		\$119,949.12
21	Credit for Debt Retirement.....		
22	.....		\$119,949.12
23	Amount due to Application of Sec. 734.....		
24	Excess Profits Tax Due.....		\$119,949.12
	Excess Profits Tax Due as above.....	\$119,949.12	
	Less Post War Refund.....	11,994.91	\$107,954.21
	Excess Profits Tax per Return.....	\$168,859.67	
	Credit under Sec. 3806	43,448.84	
	Excess Profits Tax Assessed and Paid.....	\$125,410.83	
	Post War Refund—Bonds Received.....	12,541.08	112,869.75
	Adjustment under Sec. 124(d) (5).....		\$ 4,915.54

Respondent's Exhibit B—(Continued)

HOFFMAN RADIO CORPORATION

ADJUSTMENTS UNDER SEC. 124(d) (5)
YEAR 1944

INCOME TAX—1944

31	Net Income Item 31—Form 1120.....		\$487,632.94
	Amortization Deduction—Recomputed	\$ 24,654.32	
	Amortization Deduction—Return	11,094.48	13,559.84
			<hr/>
31	Net Income for Declared Value Excess Profits Tax.....		\$474,073.10
	Declared Value	\$6,000,000.00	
	10% Declared Value	\$600,000.00	
	Credit for Dividends Received		600,000.00
			<hr/>
	Subject to Tax		None
	Declared Value Excess Profits Tax.....	None	
	Tax Assessed—Return	None	
			<hr/>
	Adjustment under Sec. 124(d) (5)	None	
			<hr/>
31	Net Income Revised as above.....		\$474,073.10
32	Interest on U. S. Obligations.....		
33	Long Term Capital Gains.....		
			<hr/>
34	.....		\$474,073.10
35	Declared Value Excess Profits Tax.....		
			<hr/>
36	Net Income		\$474,073.10
37	Interest on U. S. Obligations.....		
			<hr/>
38	Adjusted Net Income		\$474,073.10
39	Adjusted Excess Profits Net Form 1121.....	\$453,696.73	
40	Credit for Dividends Received.....		453,696.73
			<hr/>
41	Normal Tax Net Income.....		\$ 20,376.37
			<hr/>

Respondent's Exhibit B—(Continued)

INCOME TAX—1944—(Continued)

NORMAL TAX

\$ 5,000.00 at 15%.....	\$ 750.00	
15,000.00 at 17%.....	2,550.00	
376.37 at 19%.....	71.51	\$ 3,371.51

Net Income Item 36.....		\$474,073.10
Adjusted Excess Profits Net.....	\$453,696.73	
Credit for Dividends Received.....		453,696.73
Surtax Net Income		\$ 20,376.37
Surtax at 10%	\$ 2,037.64	
12 Normal Tax	\$ 3,371.51	
Surtax	2,037.64	5,409.15
13 Credit for Foreign Taxes.....		
14 Balance of Income Tax.....		\$ 5,409.15
Income Tax due as above.....		\$ 5,409.15
Taxes previously assessed Return.....		5,401.62
Adjustment under Sec. 124(d) (5).....		\$ 7.53

EXCESS PROFITS TAX—1944

1 Excess Profits Net Income—Form 1121.....		\$487,632.94
Amortization Deduction—Recomputed	\$ 24,654.32	
Amortization Deduction—Return	11,094.48	13,559.84
1 Excess Profits Net Income—Revised.....		\$474,073.10
2 Specific Exemption	\$ 10,000.00	
3 Excess Profits Credit	10,367.37	
5 Unused Excess Profits Credit.....		20,376.37
8 Adjusted Excess Profits Net.....		\$453,696.73

Respondent's Exhibit B—(Continued)

EXCESS PROFITS TAX—1944—(Continued)

9	Tax at 95%	\$431,011.89	
10	Net Income—Item 36—Form 1120.....		\$474,073.10
11	Dividends Received Credit		
12	Surtax Net without Credit under Sec. 26(e).....		\$474,073.10
13	80% Item 12		\$379,258.48
14	Income Tax under Chapter 1.....		5,409.15
15	Excess of 13 over 14.....		\$373,849.33
16	Item 9 or 15 whichever is lesser.....		373,849.33
17	Amount deferred under Sec. 710(a) (5).....		
18	Excess Profits Tax		\$373,849.33
19	Credit for Foreign Taxes.....		
20	.....		\$373,849.33
21	Credit for Debt Retirement.....		
22	.....		\$373,849.33
23	Amount due to Application of Sec. 734.....		
24	Excess Profits Tax Due.....		\$373,849.33
	Excess Profits Tax Due as above.....	\$373,849.33	
	Less Post War Refund.....	37,384.93	336,464.41
	Tax Assessed per Return	\$384,704.73	
	Less Post War Credit.....	38,470.47	346,234.26
	Adjustment Under Sec. 124(d) (5).....		\$ 9,769.86

Respondent's Exhibit B—(Continued)

SU-21 (5-16-42)

Department of the Navy
Office of the Under Secretary
Washington, D. C.

Sept. 7, (Illegible)

Sirs:

There is transmitted herewith conformed copy of—

Certificate of Necessity No. ND-N-6239, dated Sept. 1, (Illegible), the original of which has been signed and issued by the Under Secretary of the Navy pursuant to the provisions of Section 124 of the Internal Revenue Code in response to your application No. 10313.

Respectfully,

/s/ (Illegible).

Enclosure: (1).

Mission Bell Radio Mfg. Co., Inc., 3430 South Hill Street, Los Angeles 7, California.

Date: Sept. 1, 1943

No. ND-N-6239

Navy Department

NECESSITY CERTIFICATE

To the Commissioner of Internal Revenue:

Pursuant to Section 124 of the Internal Revenue Code, particularly subsection (f) thereof, and in

Respondent's Exhibit B—(Continued)

response to the application filed by Mission Bell Radio Mfg. Co., Inc., Los Angeles 7, California.

It Is Hereby Certified that the facilities described in the attached Appendix A (consisting of four pages, one map and one photograph) are necessary in the interest of national defense during the emergency period, up to 100% of the cost attributable to the construction, reconstruction, erection, installation or acquisition thereof, and that the application for this Certificate was filed on July 22, 1943.

By direction of the Secretary of the Navy:

JAMES FORRESTAL,
The Under Secretary of the Navy.

Certified to be a true copy, the original of which has been forwarded to the Commissioner of Internal Revenue, Washington, D. C.

/s/ ROBERT A. IRWIN,
Lt., USNR. Special Assistant to the Under Secretary of the Navy.

APPENDIX A

Name of Corporation: Mission Bell Radio Mfg. Co., Inc.

Address: 3430 So. Hill St., Los Angeles 7, California.

Location of facilities: 3751 So. Hill St., Los Angeles 7, California.

The earliest date of acquisition or beginning of construction, reconstruction, erection, or installation of any of the facilities was June 18th, 1943.

Respondent's Exhibit B—(Continued)

(Note—This application must have been received by either the War Department or the Navy Department in Washington, D. C., before the expiration of 6 months after the above date.)

SUMMARY SHEET

(Applicant must attach hereto additional sheets supplying a description of each facility.)

See page	Actual	Estimated
() Land	\$14,000.00	\$
() Building and Other Construction.....	37,000.00	.....
Equipment:		
() Machine tools .....	.....	.....
() Other metalworking machinery.....	.....	.....
() Power generating and distributing equipment	4,000.00	.....
() Furnaces .....	.....	.....
() Other .....	.....	.....
Other Facilities (specify):		
()
Totals.....		\$
Grand Total of All Facilities, Appendix A.....		\$55,000.00

This Appendix A, including this summary sheet and sheets attached by the applicant supplying a description of each facility, consists of 4 pages and 2 blueprints or maps.

SUGGESTED DESCRIPTIONS
OF FACILITIES

(Do not fill out or return this sheet. Detach and substitute additional sheets giving the identifying details of each facility.)

To guide the applicant in supplying a complete description of each facility sought to be certified the following forms of description are suggested:

Respondent's Exhibit B—(Continued)

Land: Approximately 37,000 sq. ft., 200 ft. by 185 ft., located at 3751 S. Hill St., as indicated by area enclosed by red line on attached blueprint marked “. . . .”, \$14,000.00.

Buildings: Factory building located at 3751 S. Hill St., 100 ft. by 185 ft., approximately 18,500 sq. ft., floor space. Brick and wood construction. One floor, indicated as building “. . . .” on attached blueprint, \$37,000.00.

Machine Tools: Special features or attachments, power installation, \$4,000.00.

Other Facilities: Descriptions of other facilities should conform to the above suggestions insofar as practicable.

Copies of Appendix A, including the Summary Sheet and the sheets attached by the applicant supplying a description of each facility will be attached to any certificate which may be issued. Thus, the descriptions given should be in sufficient detail to assure complete identification of each facility. Facilities which cannot be completely identified, should be described as accurately as possible, stating estimated costs. For the protection of the applicant, complete identification of the facilities should be submitted as an amendment to Appendix A as soon as sufficient identification is available.

A Necessity Certificate is approximately 8½ by 10 inches in size. Therefore, any blueprints or maps which are included as part of Appendix A should, if possible, be made to conform to the size of the certificate. Elevations or working drawings are not needed.

Respondent's Exhibit C—(Continued)

State of California,
County of Los Angeles—ss.

I, H. Jos. Haupt, residing at 3207 Windsor Avenue, Los Angeles, California, as advisor for Mission Bell Radio Mfg. Co., Inc., affirm that pursuant to instructions received, I prepared the attached Corporation Excess Profits Tax Return for the calendar year 1941 showing a net loss of \$15,475.75 and no tax liability on the basis of information furnished by the said Mission Bell Radio Mfg. Co., Inc., without verification by me: that the information set out in the return correctly and fairly reflects the information furnished to or discovered by me during the course of the preparation of the return, and that the said information is true to the best of my knowledge and belief.

/s/ H. JOS. HAUPT.

Subscribed and sworn to before me this 16th day of March, 1942.

/s/ L. M. SHELDON,

Notary Public in and for the County of Los Angeles, State of California.

My Commission Expires October 22, 1945.

State of California,
County of Los Angeles—ss.

I, H. Jos. Haupt, residing at 3207 Windsor Avenue, Los Angeles, California, as advisor for Mission Bell Radio Mfg. Co., Inc., affirm that pur-

Respondent's Exhibit C—(Continued)

suant to instructions received from it, I prepared the attached Corporation Income and Declared Value Excess-Profits Tax Return for the calendar year 1941 showing a net loss of \$15,470.54 and no tax liability, on the basis of information furnished by the said Mission Bell Radio Mfg. Co., Inc., without verification by me; that the information set out in the return correctly and fairly reflects the information furnished to or discovered by me during the course of the preparation of the return, and that the said information is true to the best of my knowledge and belief.

/s/ H. JOS. HAUPT.

Subscribed and sworn to before me this 16th day of March, 1942.

/s/ L. M. SHELDON,

Notary Public in and for the County of Los Angeles, State of California.

My Commission Expires October 22, 1945.

Respondent's Exhibit C—(Continued)

Mission Bell Radio Mfg. Co., Inc.
Los Angeles, California

STATEMENT ATTACHED TO AND MADE A
PART OF CORPORATION INCOME AND
DECLARED VALUE EXCESS - PROFITS
TAX RETURN

For Calendar Year 1941

Item 13—Other Income

Reduction of Reserve for Bad Debts.....	\$ 719.28
Purchase Discounts	92.15
Insurance Dividend	94.85
Bad Debts Recovered.....	5.21
Notes Payable Written Off.....	2,650.00
Credit Balance on Account Receivable Written Off	205.86
	<hr/>
	\$3,767.35

Respondent's Exhibit C—(Continued)

Mission Bell Radio Mfg. Co., Inc.

Los Angeles, California

STATEMENT ATTACHED TO AND MADE A
PART OF CORPORATION INCOME AND
DECLARED VALUE EXCESS - PROFITS
TAX RETURNS

For Calendar Year 1941

Schedule H—Taxes

Excise Tax	\$ 775.75
State Franchise Tax.....	25.00
Capital Stock Tax.....	301.93
Contributions to State Employment Fund	472.09
Federal Excise Tax on Employers of Eight or More	52.46
Federal Old Age Benefits Tax.....	174.86
City License	39.25
Property Taxes	320.81
	<hr/>
	\$2,162.15

Respondent's Exhibit C—(Continued)

Mission Bell Radio Mfg. Co., Inc.
Los Angeles, California

STATEMENT ATTACHED TO AND MADE A
PART OF CORPORATION INCOME AND
DECLARED VALUE EXCESS - PROFITS
TAX RETURN

For Calendar Year 1941

Schedule K

Other Deductions Authorized By Law

Royalties	\$ 894.71
Engineering and Development Expense..	1,000.68
Stationery and Office Supplies.....	205.72
Telephone and Telegrams.....	640.12
Insurance Premiums	203.75
Traveling and Automobile Expense.....	1,422.39
Postage	88.84
General Administrative Expense.....	412.16
Amortization of License Contract Expense	760.92
Sales Commissions	149.20
Advertising	183.66
Cash Discounts and Rebates.....	12.17
Freight and Cartage—Outgoing.....	41.21
Eastern Sales Office Expense.....	350.00
Packing and Shipping Expense.....	13.49
Excess of Sales Tax Liability over Amount Collected .....	.38
	<hr/>
	\$6,379.40

Respondent's Exhibit C—(Continued)

Mission Bell Radio Mfg. Co., Inc.
Los Angeles, California

STATEMENT ATTACHED TO AND MADE A
PART OF CORPORATION INCOME AND
DECLARED VALUE EXCESS - PROFITS
TAX RETURN

For Calendar Year 1941

Schedule A

Cost of Goods Sold, Other Costs Per Books

Freight and Cartage on Materials.....	\$123.39
Heat, Light and Power.....	239.74
Spoilage and Raw Material Repairs.....	82.74
Small Tools	43.04
Miscellaneous Manufacturing Expense.....	137.95
	<hr/>
	\$626.86

Respondent's Exhibit C—(Continued)

Mission Bell Radio Mfg. Co., Inc.

Los Angeles, California

STATEMENT ATTACHED TO AND MADE A
PART OF CORPORATION INCOME AND
DECLARED VALUE EXCESS - PROFITS
TAX RETURN

For Calendar Year 1941

Schedule M—Line 18

Sundry Credits To Earned Surplus

Reserve for Depreciation of Furniture and Fixtures Written Off.....	\$ 535.61
Reserve for Depreciation of Machinery and Equipment Written Off.....	1,740.10
Revaluation of R.C.A. License Contract..	13,695.63
	<hr/>
	\$15,971.34

Respondent's Exhibit D—(Continued)

HERMAN LESLIE HOFFMAN and FRANCES ELAINE HOFFMAN

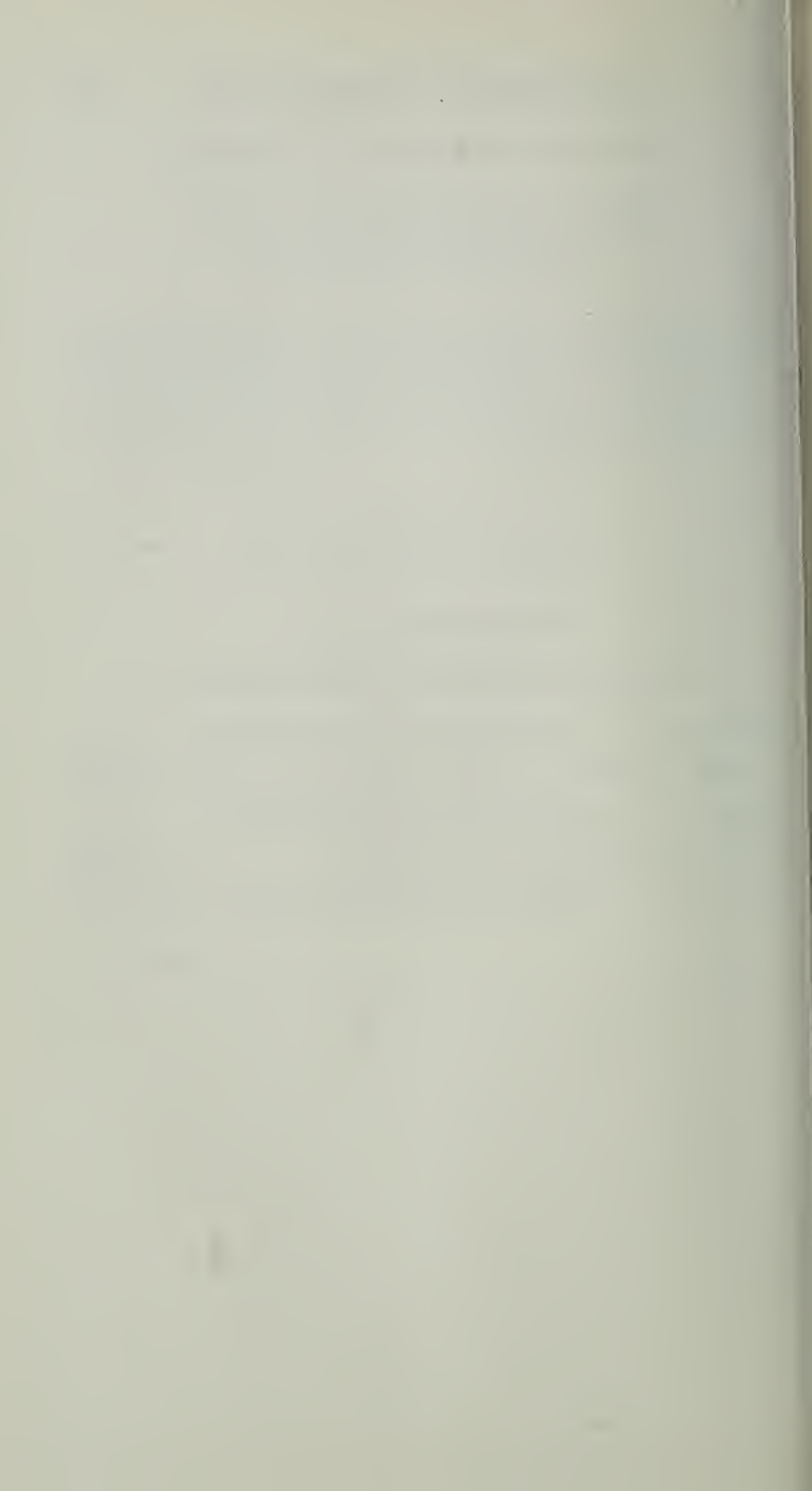
Newport Beach, California

Schedule Attached to and Made a Part of Individual Income Tax
Return for Calendar Year 1941

	Herman Leslie Hoffman	Frances Elaine Hoffman	Total
Item 1—Salaries:			
Peerless Electrical Products Co.....	\$13,616.52	.....	\$13,616.52
The May Company .....	.....	\$ 1,511.54	1,511.54
	<hr/>	<hr/>	<hr/>
	\$13,616.52	\$ 1,511.54	\$15,128.06
	<hr/>	<hr/>	<hr/>
Less—Deductible Expenses:			
Contributions to State Employ- ment Fund	\$ 30.00	\$ 15.12	\$ 45.12
Traveling and Entertainment.....	1,479.50	.....	1,479.50
Telephone and Telegrams.....	65.00	.....	65.00
Automobile Expense:			
31600 miles at 5c....	\$1,580.00		
Less 20% for Per- sonal use	316.00		
	<hr/>		
	1,264.00	.....	1,264.00
Dues and Subscriptions	55.00	.....	55.00
Convention Expense	75.00	.....	75.00
Christmas Gifts (Business Expense)	80.00	.....	80.00
Postage	25.00	.....	25.00
Advertising	200.00	.....	200.00
Salary of Assistant	750.00	.....	750.00
	<hr/>	<hr/>	<hr/>
	\$ 4,023.50	\$ 15.12	\$ 4,038.62
	<hr/>	<hr/>	<hr/>
Net.....	\$ 9,593.02	\$ 1,496.42	\$11,089.44
	<hr/>	<hr/>	<hr/>

Respondent's Exhibit D—(Continued)

	Herman Leslie Hoffman	Frances Elaine Hoffman	Total
Item 11—Contributions Paid:			
Red Cross	\$ 150.00	\$	\$ 150.00
First Presbyterian Church	50.00	50.00	100.00
Community Chest	25.00	.....	25.00
	<hr/>	<hr/>	<hr/>
	\$ 225.00	\$ 50.00	\$ 275.00
	<hr/>	<hr/>	<hr/>
Item 12—Interest:			
Interest on Real Estate Mortgage....	\$ 347.60	\$	\$ 347.60
Interest on Automobile Contract....	182.00	.....	182.00
	<hr/>	<hr/>	<hr/>
	\$ 529.60	\$	\$ 529.60
	<hr/>	<hr/>	<hr/>
Item 13—Taxes:			
Property Taxes	\$ 176.82	\$	\$ 176.82
Automobile Licenses and Taxes.....	42.60	.....	42.60
Amusement Taxes	8.00	.....	8.00
State Income Tax	23.24	40.00	63.24
	<hr/>	<hr/>	<hr/>
	\$ 250.66	\$ 40.00	\$ 290.66
	<hr/>	<hr/>	<hr/>
Item 14—Losses from Casualty:			
Damage to Automobile as the re- sult of accident, not covered by insurance	\$ 125.00	\$	\$ 125.00
	<hr/>	<hr/>	<hr/>
Item 15—Bad Debts:			
Loan uncollectible and Determined worthless in 1941	\$ 30.00	\$	\$ 30.00
	<hr/>	<hr/>	<hr/>



UNITED STATES
INDIVIDUAL INCOME TAX RETURN

1941

(Auditor's Stamp)

OPTIONAL FORM 1040A MAY BE FILED INSTEAD OF THIS FORM IF THE TAXPAYER'S GROSS INCOME DOES NOT EXCEED \$10,000 AND CONSISTS WHOLLY OF SALARIES, WAGES, OTHER COMPENSATION FOR PERSONAL SERVICES, DIVIDENDS, INTEREST, RENT, ANNUITIES, OR ROYALTIES.

For Calendar Year 1941

or fiscal year beginning 1941, and ending 1942

To be filed with the Collector of Internal Revenue for your district not later than the 15th day of the third month following the close of your taxable year

PRINT NAME AND ADDRESS PLAINLY. (See Instruction C)

HERMAN LESLIE HOFFMAN

(Name) (Use given names of both husband and wife, if this is a joint return)

141 Via Zurich

(Street and number, or rural route)

Newport Beach, Orange, California

(Post office)

(County)

(State)

(Do not use this space)
File Code 1325
381090
District C-Cali
(Cashier's Stamp)
RECEIVED
WITH REMITTANCE
MAR 16 1942
C. C. O.
First Payment

RECEIVED BY THE U.S. DEPARTMENT OF THE TREASURY
BUCKET 1683
DEC 11 1941
EXHIBIT D
RESPONDENT'S

Item and Instruction No.	INCOME	Amount	Deductible Expenses (Attach itemized statement)	
1.	Salaries and other compensation for personal services.	Schedule Attached	\$	6795.06
2.	Dividends.			
3.	Interest on (a) bank deposits, notes, etc., \$; (b) corporation bonds, \$			
4.	Interest on Government obligations, etc.: (a) From line (A), Schedule A, \$; (b) from line (f), Schedule A, \$			
5.	Rents and royalties. (From Schedule B)			
6.	Annuities			
<p>ITEMS 7, 8, AND 9, BELOW (AND PAGES 3 AND 4) NEED NOT BE CONSIDERED IF THE TAXPAYER'S GROSS INCOME (OR LOSSES) IN ADDITION TO ITEMS ABOVE, IS:</p> <p>7. (a) Net short-term gain from sale or exchange of capital assets. (From Schedule F)</p>				
<p>(b) Net long-term gain (or loss) from sale or exchange of capital assets. (From Schedule F)</p>				
<p>(c) Net gain (or loss) from sale or exchange of property other than capital assets. (From Schedule G)</p>				
8.	Net profit (or loss) from business or profession. (From Schedule H)			
9.	Income (or loss) from partnerships; fiduciary income; and other income. (From Schedule D)			
10.	Total income in items 1 to 9			6795.06
<p>DEDUCTIONS</p>				
11.	Contributions paid. (Explain in Schedule C)	Schedule Attached	\$	225.00
12.	Interest. (Explain in Schedule C)	Schedule Attached		529.60
13.	Taxes. (Explain in Schedule C)	Schedule Attached		250.66
14.	Losses from fire, storm, shipwreck, or other casualty, or theft. (Explain in Schedule C)	Schedule Attached		125.00
15.	Bad debts. (Explain in Schedule C)	Schedule Attached		30.00
16.	Other deductions authorized by law. (Explain in Schedule C)			
17.	Total deductions in items 11 to 16			1160.26
18.	Net income (item 10 minus item 17)			5634.80

COMPUTATION OF TAX			
19.	Net income (item 18 above)	\$	5634.80
20.	Less: Personal exemption. (From Schedule D-1)	\$ 1500.00	
21.	Credit for dependents. (From Schedule D-2)	233.35	1733.33
22.	Balance (surtax net income)	\$	3901.47
23.	Less: Item 4 (a) above	\$	
24.	Earned income credit. (From Schedule E-1 or E-2)	563.48	563.48
25.	Balance subject to normal tax	\$	3337.99
26.	Normal tax (4% of item 25)	\$	133.52
27.	Surtax on item 22. (See Instruction 27)		291.11
28.	Total (item 26 plus item 27)	\$	424.63
29.	Total tax (item 28 or line 16, Schedule F)	\$	424.63
30.	Less: Income tax paid at source	\$	
31.	Income tax paid to a foreign country or U.S. possession. (Attach Form 1116)	\$	
32.	Balance of tax (item 29 minus items 30 and 31)	\$	424.63

I/we swear (or affirm) that this return (including any accompanying schedules and statements) has been examined by me and to the best of my/our knowledge and belief is a true, correct, and complete return, made in good faith, for the taxable year stated, pursuant to the Internal Revenue Code and the regulations issued under authority thereof.

Subscribed and sworn to by Herman Leslie Hoffman

Herman Leslie Hoffman
(Signature) (See Instruction E)

before me this 16th day of March, 1942

NOTARY PUBLIC IN AND FOR THE COUNTY OF

(Signature and title of officer administering oath) If this is a joint return (and made by agent), it must be signed by both husband and wife. It must be sworn to before a proper officer by the agent preparing the return.

A return made by an agent must be accompanied by power of attorney. (See Instruction E)

(IF THIS RETURN WAS PREPARED FOR YOU BY SOME OTHER PERSON, THE AFFIDAVIT ON PAGE 4 MUST BE EXECUTED)

My Commission Expires October 22, 1945



Schedule A.—INTEREST ON GOVERNMENT OBLIGATIONS, ETC. (See Instruction G)

10

1. Obligations or securities

1. Obligations or securities	2. Amount owned at end of year including your proportionate share of such obligations held by estates, trusts, partnerships, or common trust funds	3. Interest received or accrued during the year	4. Amount of principal interest on which is exempt from taxation	5. Interest on amount exempt of "simple and dividends not subject to surtax on"
(a) Obligations of a State, Territory, or political subdivision thereof, or the District of Columbia, or United States possessions.				
(b) Obligations issued prior to March 1, 1941, under Federal Farm Loan Act, or under such Act as amended.				
(c) Obligations of United States issued on or before September 1, 1917.			All	XXXXXXXXXX
(d) Treasury Notes, Treasury Bills, and Treasury Certificates of Indebtedness issued prior to March 1, 1941.			All	XXXXXXXXXX
(e) United States Savings Bonds and Treasury Bonds issued prior to March 1, 1941.			All	XXXXXXXXXX
(f) Obligations of instrumentalities of the United States (other than obligations to be reported in (b) above) issued prior to March 1, 1941.			\$5,000	\$
(g) Dividends on share accounts in Federal savings and loan associations.			None	
(h) Total (enter as item 4 (a), page 1).	XXXXXXXXXXXX	XXXXXXXXXX	XXXX	
(i) Obligations issued on or after March 1, 1941, by the United States or any agency or instrumentality thereof (enter amount of interest as item 4 (b), page 1).			Amount owned at end of year	Interest received or accrued during the year (subject to normal tax and surtax)

Schedule B.—INCOME FROM RENTS AND ROYALTIES. (See Instruction 5)

1. Kind of property	2. Amount	3. Depreciation or depletion (attach schedule)	4. Repairs (explain below)	5. Other expenses (itemize below)	6. Net profit (column 2 minus sum of columns 3, 4, and 5) (enter as item 5, page 1)
	\$	\$	\$	\$	\$

Explanation of deductions claimed in columns 4 and 5.

Schedule C.—EXPLANATION OF DEDUCTIONS CLAIMED IN ITEMS 11, 12, 13, 14, 15, AND 16

1. Item No.	2. Explanation	3. Amount	1. Item No. (Continued)	2. Explanation (Continued)	3. Amount (Continued)
	SCHEDULE ATTACHED	\$			\$

Schedule D.—EXPLANATION OF CREDITS CLAIMED IN ITEMS 20 AND 21. (See Instructions 20 and 21)

(1) Personal Exemption			(2) Credit for Dependents		
Status	Number of months during the year in each status	Credit claimed	Name of dependent and relationship	Number of months during the year	Credit claimed
Single, or married and not living with husband or wife, and not head of family.			Mrs. F.A. Hoffman	Under 18 years old	
Married and living with husband or wife.	7	875.00	Mother	18 years or over	
Head of family (explain below)	5	625.00			233.33

Maintained Home for and Resided with Mother until May 20, 1941.

Reason for support if 18 years or over: Mother physically defective

Schedule E.—COMPUTATION OF EARNED INCOME CREDIT. (See Instruction 24)

(1) If your net income is \$3,000 or less, use only this part of schedule		(2) If your net income is more than \$3,000, use only this part of schedule	
Net income (item 18, page 1)	\$	Earned net income (not more than \$14,000)	\$ 6795.06
Earned income credit (10% of net income, above)		Net income (item 18, page 1)	5634.80
		Earned income credit (10% of earned net income or 10% of net income, above, whichever amount is smaller, but do not enter less than \$300)	563.48

QUESTIONS

State your principal occupation or profession: Manufacturers Representative

Name and address of employer: Pearless Electrical Products Co Los Angeles Calif.

Did you file a return for any prior year? Yes If so, what was the latest year? 1940 To which Collector's office was it sent? Sixth California

If separate return was made for the current year, state:

(a) Name of husband or wife: Francis Elaine Hoffman

(b) Personal exemption, if any, claimed thereon: 2

(c) Collector's office to which it was sent: LA 612 CB 10

Check whether this return was prepared on the cash or accrual basis.

If return on cash basis, do you elect, under section 42, to include as income:

7. Did you receive during the taxable year any nontaxable income other than interest reported in Schedule A (see Instruction G)? NO If so, attach schedule showing source, nature, and amount of such income.

8. Did you at any time during your taxable year own directly or indirectly any stock of a foreign corporation or a personal holding company as defined by section 501 of the Internal Revenue Code? NO If so, attach statement required by Instruction J.

B.2

Respondent's Exhibit D—(Continued)

HERMAN LESLIE HOFFMAN and FRANCES ELAINE HOFFMAN
Newport Beach, California

Schedule Attached to and Made a Part of Individual Income Tax
Return for Calendar Year 1941

SUMMARY

Item No.	Income	Total	Reported by	
			Husband	Wife
1	Salaries	\$11,089.44	\$ 6,795.06	\$ 4,294.38
	Deductions			
11	Contributions Paid	\$ 275.00	\$ 225.00	\$ 50.00
12	Interest	529.60	529.60	.....
13	Taxes	290.66	250.66	40.00
14	Losses from Casualty.....	125.00	125.00	.....
15	Bad Debts	30.00	30.00	.....
17	Total Deductions	\$ 1,250.26	\$ 1,160.26	\$ 90.00
18	Net Income	\$ 9,839.18	\$ 5,634.80	\$ 4,204.38

Respondent's Exhibit D—(Continued)

HERMAN LESLIE HOFFMAN and FRANCES ELAINE HOFFMAN

Newport Beach, California

Schedule Attached to and Made a Part of Individual Income Tax
Return for Calendar Year 1941

	Herman Leslie Hoffman	Frances Elaine Hoffman	Total
Item 1—Salaries:			
Peerless Electrical Products Co.....	\$13,616.52	.....	\$13,616.52
The May Company .....	.....	\$ 1,511.54	1,511.54
	<hr/>	<hr/>	<hr/>
	\$13,616.52	\$ 1,511.54	\$15,128.06
	<hr/>	<hr/>	<hr/>
Less—Deductible Expenses:			
Contributions to State Employ- ment Fund	\$ 30.00	\$ 15.12	\$ 45.12
Traveling and Entertainment.....	1,479.50	.....	1,479.50
Telephone and Telegrams.....	65.00	.....	65.00
Automobile Expense:			
31600 miles at 5c....	\$1,580.00		
Less 20% for Per- sonal use	316.00	1,264.00	1,264.00
	<hr/>		
Dues and Subscriptions	55.00	.....	55.00
Convention Expense	75.00	.....	75.00
Christmas Gifts (Business Expense)	80.00	.....	80.00
Postage	25.00	.....	25.00
Advertising	200.00	.....	200.00
Salary of Assistant	750.00	.....	750.00
	<hr/>	<hr/>	<hr/>
	\$ 4,023.50	\$ 15.12	\$ 4,038.62
	<hr/>	<hr/>	<hr/>
Net.....	\$ 9,593.02	\$ 1,496.42	\$11,089.44
	<hr/>	<hr/>	<hr/>

Respondent's Exhibit D—(Continued)

	Herman Leslie Hoffman	Frances Elaine Hoffman	Total
Item 11—Contributions Paid:			
Red Cross	\$ 150.00	\$	\$ 150.00
First Presbyterian Church	50.00	50.00	100.00
Community Chest	25.00	.....	25.00
	<hr/>	<hr/>	<hr/>
	\$ 225.00	\$ 50.00	\$ 275.00
Item 12—Interest:			
Interest on Real Estate Mortgage....	\$ 347.60	\$	\$ 347.60
Interest on Automobile Contract....	182.00	.....	182.00
	<hr/>	<hr/>	<hr/>
	\$ 529.60	\$	\$ 529.60
Item 13—Taxes:			
Property Taxes	\$ 176.82	\$	\$ 176.82
Automobile Licenses and Taxes.....	42.60	.....	42.60
Amusement Taxes	8.00	.....	8.00
State Income Tax	23.24	40.00	63.24
	<hr/>	<hr/>	<hr/>
	\$ 250.66	\$ 40.00	\$ 290.66
Item 14—Losses from Casualty:			
Damage to Automobile as the re- sult of accident, not covered by insurance	\$ 125.00	\$	\$ 125.00
Item 15—Bad Debts:			
Loan uncollectible and Determined worthless in 1941	\$ 30.00	\$	\$ 30.00

Respondent's Exhibit D—(Continued)

State of California,
County of Los Angeles—ss.

I, H. Jos. Haupt, residing at 3207 Windsor Avenue, Los Angeles, California, as advisor for Herman Leslie Hoffman, affirm that pursuant to instructions I received from him, I prepared the attached individual return of income for the calendar year 1941 showing a net income of \$5,634.80 and a tax liability of \$424.65 on the basis of information furnished by the said Herman Leslie Hoffman, without verification by me: that the information set out in the return correctly and fairly reflects the information furnished to or discovered by me during the course of the preparation of the return, and that the said information is true to the best of my knowledge and belief.

/s/ H. JOS. HAUPT.

Subscribed and sworn to before me this 16th day of March, 1942.

/s/ L. M. SHELDON,
Notary Public in and for the County of Los Angeles, State of California.

My Commission Expires October 22, 1945.

RESPONDENT'S EXHIBIT E

[Stamp]: Revenue Agent in Charge, Los Angeles Division. Received Dec. 20, 1945.

STATEMENT OF PROTEST OF H. LESLIE
HOFFMAN AND ELAINE S. HOFFMAN,
2245 EL MOLINO PLACE, SAN MARINO,
CALIFORNIA

Calendar Year 1943

Los Angeles, California, Dec. 18, 1945

Mr. George D. Martin
Internal Revenue Agent in Charge
Los Angeles, California

Attention: Internal Revenue Agent
J. F. Fraser.

Dear Sir:

Reference is made to the office audit made by your office with respect to the income tax return for the calendar year 1943 filed by Mr. H. Leslie Hoffman and his wife, Elaine S. Hoffman, and in which you propose a deficiency tax in the respective amounts of \$698.81 and \$751.26.

Two adjustments are proposed by the office audit. It is proposed to disallow a loss of \$500.00 claimed with respect to the sale of a boat and to disallow as a deduction the payment in the sum of \$1,500.00 made to P. L. Fleming.

Taxpayers sold the boat during the year 1943 which had cost them the sum of \$1,350.00 for the sum of \$750.00 and thereby sustained a loss in the

Respondent's Exhibit E—(Continued)

sum of \$600.00, and they took sustained appreciation in the sum of \$100.00 and claimed a net loss in the sum of \$500.00, reporting \$250.00 loss on each tax return.

When the taxpayer H. Leslie Hoffman purchased this boat prior to the year 1943 he was in the employ of the Peerless Electrical Products Company and Lumador Electrical Manufacturing Company. While being engaged in such employment he was not paid a salary but was paid compensation entirely upon a commission basis. It was necessary in order that the taxpayer might earn the commissions which he did that he contact the trade and he used the boat in question for the purpose of making business friends and contacts which in turn would inure to his benefit and result in the purchase of goods from the two corporations by whom he was employed. The boat was not used for his own personal pleasure, comfort and enjoyment but was used as an adjunct to his business of soliciting sales for the two corporations by whom he was employed, and the boat was therefore directly connected with his business. The Revenue Agent is in error in stating that the taxpayer only received a salary. He did not receive a salary but as above explained, worked entirely upon a commission basis.

In December of 1941 the taxpayer H. Leslie Hoffman made a business agreement whereby he and two others would purchase the outstanding stock of the Mission Bell Manufacturing Company,

Respondent's Exhibit E—(Continued)

Inc., and whereby he would also accept employment from Mission Bell Radio Manufacturing Company, Inc., on a percentage of the sales made by said corporation. Mr. P. L. Fleming was connected with the corporation at the time Mr. Hoffman became interested in its possibilities and Mr. Hoffman agreed with Mr. Fleming that if he would acquaint him with the radio manufacturing business and lend him aid and assistance in the reorganization of the company he would pay to Mr. Fleming the sum of \$1,500.00. The amount paid to Mr. Fleming was not an obligation of the corporation but was an entirely independent transaction between H. Leslie Hoffman and P. L. Fleming. The amount paid by Mr. Hoffman to Mr. Fleming made it possible for Mr. Hoffman to reorganize the corporation, and his successful operation of the company made it possible for him to report the very substantial earnings which he received in the year 1943. The amount paid Mr. Fleming bore a direct relationship to the business of the taxpayer and the direct benefit of such an agreement with Mr. Fleming is evidenced by the substantial income reported by the taxpayer and his wife on their returns for the year 1943.

Wherefore it is respectfully submitted that the Agent was in error in proposing the two disallowances here in question.

Respectfully submitted,

/s/ H. LESLIE HOFFMAN.

/s/ ELAINE S. HOFFMAN.

Respondent's Exhibit E—(Continued)

State of California,
County of Los Angeles—ss.

H. Leslie Hoffman and Elaine S. Hoffman being duly sworn, state they have read the foregoing protest and are familiar with the statements contained therein and that the statements contained therein are true, except those stated to be upon information and belief and those they believe to be true.

/s/ H. LESLIE HOFFMAN.

/s/ ELAINE S. HOFFMAN.

Subscribed and sworn to before me this 19th day of December, 1945.

/s/ R. A. YARCHO,
Notary Public.

My Commission Expires March 21, 1946.

CERTIFICATE

I hereby certify that the foregoing protest was prepared by me for and on behalf of taxpayer; that the facts recited in said protest are the exact facts as given to me by the taxpayer and to the best of my knowledge and belief are true and correct.

/s/ JOHN B. MILLIKEN,
Attorney at Law.

RESPONDENT'S EXHIBIT F

War Production Sales

Gilfillan Bros., Inc.

Year ended May 31, 1943

Adel Precision Products Corp.
Bakewell Manufacturing Co.
Bechtel-McCone-Parsons Corp.
Bell Aircraft Corp., Buffalo.
Bell Aircraft Corp., Marietta.
Bendix Aviation, Ltd.
Boeing Aircraft Co., Renton.
Boeing Aircraft Co., Seattle.
Boeing Airplane Co., Wichita.
Buhl Stamping Co.
Consolidated Aircraft Corp., Fort Worth.
Consolidated Aircraft Corp., San Diego.
Curtiss-Wright Corp., Columbus.
Curtiss-Wright Corp., St. Louis.
Davis Precision Machine Shop.
John Deere Harvester Works.
Doak Aircraft Co., Inc.
Douglas Aircraft Co., Inc., Chicago.
Douglas Aircraft Co., Inc., El Segundo.
Douglas Aircraft Co., Inc., Long Beach.
Douglas Aircraft Co., Inc., Oklahoma City.
Douglas Aircraft Co., Inc., Santa Monica.
Douglas Aircraft Co., Inc., Tulsa.
General Motors Corp., Cleveland.
General Motors Corp., Memphis.

Respondent's Exhibit F—(Continued)

Ford Motor Co.

Hartwell Aviation Supply Co.

Houde Engineering Division of Houdaille, Hershey Corp.

Lockheed Aircraft Corp.

The Glenn L. Martin Co., Baltimore.

The Glenn L. Martin Nebraska Co.

Monarch Tool and Instrument Co.

The Murray Corporation of America.

National Supply Co.

North American Aviation, Inc., Dallas.

North American Aviation, Inc., Inglewood.

Northrop Aircraft, Inc.

Precision Aeronautical Parts Mfg. Co.

Solar Aircraft Co.

U. S. Army Air Corps.

U. S. Army Signal Corps.

U. S. Navy.

University of California.

Vega Aircraft Corp.

Waldorf-Hendrickson, Inc.

RESPONDENT'S EXHIBIT G
 Gilfillan Bros, Inc.—Profit and Loss Statement
 Year Ended May 31, 1943

	Before Renegotiation	Renegotiation	Net
Net sales	\$ 3,695,822.57	\$ 200,000.00	\$ 3,495,822.57
Cost of products sold.....	2,792,274.67	.....	2,792,274.67
Gross Profit.....	\$ 903,547.90	\$ 200,000.00	\$ 703,547.90
Expenses:			
Shipping and receiving.....	\$ 62,100.77		\$ 62,100.77
General and administrative.....	313,030.33	7,785.00	305,245.33
Total Expenses.....	\$ 375,131.10	\$ 7,785.00	\$ 367,346.10
Operating Profit.....	\$ 528,416.80	\$ 192,215.00	\$ 336,201.80
Other income:			
Cash discounts	\$ 7,421.66		\$ 7,421.66
Sale of scrap materials.....	6,870.72		6,870.72
Profit on sale of capital assets.....	1,115.57		1,115.57
Sundry.....	2,727.91		2,727.91
	\$ 546,552.66	\$ 192,215.00	\$ 354,337.66

Respondent's Exhibit G—(Continued)

	Before	Renegotiation	Net
Other deductions:			
Cash discounts.....	\$ 16,533.29		\$ 16,533.29
Interest.....	6,005.87		6,005.87
Loss on sale of securities.....	19,000.00		19,000.00
Commercial sales and service—net.....	5,513.39		5,513.39
Sundry.....	335.47		335.47
	<u>\$ 47,388.02</u>	.....	<u>\$ 47,388.02</u>
Profit Before Taxes on Income.....	\$ 499,164.64	\$ 192,215.00	\$ 306,949.64
Federal taxes on income estimated:			
Normal income tax and surtax.....	\$ 20,102.43	\$ 1,469.85	\$ 21,572.28
Excess profits tax.....	370,174.23	150,750.29	219,423.94
	<u>\$ 390,276.66</u>	<u>\$ 149,280.44</u>	<u>\$ 240,996.22</u>
Less post war refund of excess profits tax.....	\$ 15,057.42	\$ 15,057.42	.....
	<u>\$ 375,219.24</u>	<u>\$ 134,223.02</u>	<u>\$ 240,996.22</u>
Net Profit.....	\$ 123,945.40	\$ 57,991.98	\$ 65,953.42

[Title of Tax Court and Cause.]

STIPULATION OF FACTS

The parties to this proceeding, through their respective counsel of record, hereby stipulate that the following facts are true and may be found as facts by the Court, subject to the right of either party to present other items of proof, either related or unrelated to the facts herein stated, but not inconsistent herewith, and subject to any objection on the grounds of irrelevancy or immateriality.

I.

The petitioner is a California corporation whose principal office is now located at 3761 South Hill Street, Los Angeles 7, California. The former location of its [387] principal office was 3430 South Hill Street, Los Angeles 7, California. The returns for the calendar taxable year 1943, the year involved in this proceeding, were filed with the Collector of the Sixth District of California.

II.

The petitioner was incorporated in California on June 30, 1932, under the name of Mission Bell Radio Mfg. Co., Inc.; but, without otherwise altering the continuity of its corporate existence, its name was changed to Hoffman Radio Corporation in 1943.

III.

Attached hereto as Exhibit 1, and made a part hereof, is a complete and correct copy of the War Production Board Supplementary General Limitation Order L-44-a issued March 7, 1942, which fur-

ther restricted and finally prohibited the commercial manufacture of radio receivers and phonographs.

IV.

During the years 1942 and 1943, the petitioner was engaged in the business of manufacturing radio and electronic equipment. Attached hereto as Exhibit 2, and made a part hereof, is a breakdown of the sales of the petitioner, for the year 1942, between commercial sales, sales under prime contracts with the armed forces of the [388] United States and other governmental agencies, and sales under subcontracts to businesses working on governmental orders. Attached hereto as Exhibit 3, and made a part hereof, is a similar breakdown of the sales of the petitioner, for the year 1943.

V.

Attached hereto as Exhibit 4, and made a part hereof, is a complete and correct copy of an Agreement dated December 1, 1941, between H. L. Hoffman and H. G. Schmieter concerning the purchase by Hoffman from Schmieter of 110 shares of the stock of petitioner.

VI.

Attached hereto as Exhibit 5, and made a part hereof, is a complete and correct copy of an Agreement dated December 4, 1941, between H. L. Hoffman and Franklyn Warner and Helen E. Warner concerning the purchase by Hoffman from the Warners of 193 shares of the stock of petitioner.

VII.

Attached hereto as Exhibit 6, and made a part

hereof, is a complete and correct copy of an Agreement dated December 4, 1941, between H. L. Hoffman and P. L. Fleming concerning the purchase by Hoffman from Fleming of 110 shares of the stock of the petitioner. [389]

VIII.

Attached hereto as Exhibit 7, and made a part hereof, is a complete and correct copy of an Agreement dated December 9, 1941, between H. L. Hoffman, G. Gifford Davidge, and Walter D. Douglas concerning the contract rights and the shares acquired by Hoffman pursuant to the three agreements set forth in Exhibits 4, 5, and 6 attached.

IX.

For the years 1941 to 1943, inclusive, the record of stock ownership of the petitioner was a set forth in Exhibit 8 attached, which is made a part hereof.

X.

Attached hereto as Exhibits 9, 10 and 11, and made a part hereof, are the petitioner's comparative balance sheets for the period January 1, 1941, to December 31, 1943, inclusive; the reconciliation of surplus for the period December 31, 1939, to December 31, 1943, inclusive; and the comparative profit and loss statements for the years 1940 to 1943, inclusive.

XI.

Attached hereto as Exhibits 12 and 13, and made a part hereof, are complete and correct copies of the resolutions of the Board of Directors of petitioner concerning the compensation of H. L. Hoffman and Walter S. Harmon. [390]

XII.

Attached hereto as Exhibits 14, 15, and 16, and made a part hereof, are complete and correct copies of the compensation contracts entered into between the petitioner and H. L. Hoffman and Walter S. Harmon.

XIII.

Attached hereto as Exhibits 17 and 18, and made a part hereof, are complete and correct copies of the portions of the records of the petitioner relating to the accrual of the H. L. Hoffman and Walter S. Harmon payments. The sums shown on the exhibits are after deducting income tax withholding and social security taxes. All such sums were paid by the petitioner during 1943, except the sums of \$12,089.24, in the case of Hoffman, and \$4,207.29, in the case of Harmon, which were paid on or before February 2, 1944.

XIV.

H. L. Hoffman and his wife, and Walter S. Harmon and his wife, reported their incomes for the year 1943 on the cash receipts and disbursements basis, and they reported their compensation income as community property income. For the year 1943, H. L. Hoffman and his wife reported compensation income received from the petitioner in the total amount of \$63,613.20; and for the year 1943 Walter S. Harmon and his wife reported compensation income [391] received from the petitioner in the total amount of \$22,171.08.

XV.

Submitted concurrently herewith are Exhibits A and B, which are complete and correct copies of

the Federal tax return Forms 1120 and 1121 filed by the petitioner for the year 1943.

XVI.

Attached hereto as Exhibit 19, and made a part hereof, is a schedule showing the payments made by petitioner to its officers for the years 1942 and 1943.

XVII.

Attached hereto as Exhibit 20, and made a part hereof, is a schedule showing the payments made by petitioner to its officers and employees, other than employees compensated on an hourly basis, for the year 1943.

XVIII.

The highest number of employees employed by petitioner in the years 1941 to date were as follows:

Year	Number of Employees
1941	3
1942	107
1943	297
1944	351
1945	462
1946	765
1947 to date.....	546

XIX.

Attached hereto as Exhibit 21, and made a part hereof, is a schedule showing, for the years 1932 to 1941, the petitioner's gross income, net income, dividends paid, payments to officers, sales commissions (to the extent of available records), and payment to engineer (to the extent of available rec-

ords). Attached hereto as Exhibit 22, and made a part hereof, is a schedule showing similar data for the years 1942 and 1943. In both exhibits "Net Income" is computed before the deduction of federal taxes.

Dated: December 11, 1947.

Respectfully submitted,

/s/ JOHN B. MILLIKEN,
/s/ HARRISON HARKINS,
Counsel for Petitioner.

/s/ CHARLES OLIPHANT, ECC,
Chief Counsel, Bureau of Internal Revenue, Counsel for Respondent. [393]

[Endorsed]: T.C.U.S. Filed Dec. 11, 1947.

EXHIBIT No. 1

Title 32—National Defense

Chapter IX—War Production Board

Subchapter B—Division of Industry Operations

Part 1077—Radio Receivers and Phonographs

Supplementary General Limitation Order L-44-a

Further Restricting and Finally Prohibiting the

Production of Radio Receivers and Phonographs

It Is Hereby Ordered That:

In accordance with the provisions of 1077.1 (General Limitation Order L-44), which the following Order supplements,

It Is Hereby Ordered That:

1077.2 Supplementary General Limitation Order.

(a) Definitions. For the purposes of this Order,

(1) "Manufacturer" means any person who puts into production any set.

(2) All the definitions contained in paragraph (a) of Limitation Order L-44 shall apply to this Order.

(b) Prohibition of Production of Sets after April 22, 1942. Effective April 23, 1942, no Manufacturer shall put into production any sets.

(c) Limit on Use of Materials. From the effective date of this Order, no Manufacturer shall use in any manner in the production of sets more than \$500 worth of materials and parts obtained under contracts or orders executed or placed after February 11, 1942, except that nothing in this paragraph shall impose any limit or restrictions on the use of wooden cabinets or materials for making such cabinets.

(d) Appeal. Any Manufacturer who considers that relief from the specific provisions of this Order will affirmatively facilitate his program of conversion from civilian to war work, may apply for relief by addressing a letter to the War Production Board, Washington, D. C. Ref: L-44-a, setting forth the pertinent facts and the reason why he considers he is entitled to relief. The Director of Industry Operations may thereupon take such action as he deems appropriate.

(e) Effective Date. This Order shall take effect on the date of its issuance, and shall continue in effect until revoked.

Issued this 7th day of March, 1942.

/s/ J. S. KNOWLSON,
Director of Industry
Operations.

EXHIBIT No. 2

1942 Sales

	Sub-contractor on		Government Orders of—		Government	
	Commercial	Government Orders of—	Kingston	Signal Supply	Experimental	Job No. 6
	Radios	Aviation	Products	Office		
January	\$ 1,798.87	\$	\$	\$	\$	\$
February	15,500.07	.....	.....	.....	.....	.....
March	5,079.64	1,488.80	.....	.....	.....	.....
April	46,075.94	935.46	.....	.....	.....	.....
May	26,788.06	8,451.52	.....	.....	.....	.....
June	24,421.64	18,952.24	.....	.....	.....	.....
July	230.94	16,421.88	.....	178.92	.....	.....
August	2,707.15	23,399.09	.....	.....	.....	336.28
September	196.72	22,541.37	.....	.....	.....	.....
October .....	.....	25,411.60	7,854.00	.....	.....	.....
November .....	.....	35,604.12	5,915.28	.....	.....	.....
December .....	.....	55,812.00	5,856.48	.....	.....	.....
Total	\$122,799.03	\$209,018.08	\$ 19,625.76	\$178.92	\$336.28	
Discount allowed	984.39	.....	.....	.....	.....	.....
Sale of Scrap .....	.....	976.94	.....	.....	.....	.....
Totals	\$121,814.64	\$229,610.78		\$515.20		
Percent of Total (\$351,950.62)	34.61%	65.24%		0.15%		

EXHIBIT No. 3

1943 Sales

Job No.	Commercial	Sub-Contractor		Prime Govern- ment Orders
		Govt. Orders	on	
1 Bendix.....	\$	\$111,821.96	\$	
2 Bendix.....	.....	362,976.70		.....
3 Bendix.....	.....	11,297.66		.....
5 Miscellaneous.....	.....	8,766.46		511.00
6 Sears, Roebuck & Misc.....	720.58	.....		.....
8 Kingston.....	.....	14,885.20		.....
9 Kingston.....	.....	65,234.40		.....
E Kingston.....	.....	17,454.78		.....
0 Philadelphia Signal Corps.....	.....	.....		232,554.57
2 Philadelphia Signal Corps.....	.....	.....		194,555.20
4 Marine Radio Service.....	.....	5,390.00		.....
5 Navy, Bureau Supplies & Acctsp	.....	.....		733,474.70
6 Wright Field Signal Corps.....	.....	.....		44,585.84
8 Navy & OSS.....	.....	.....		12,350.00
9 Office of Scientific Research.....	.....	.....		19,853.94
		<hr/>		<hr/>
	\$720.58	\$597,827.16		\$ 1,237,885.25
Total.....	\$1,836,432.99			
Percent of Total	100%	00.04%	32.55%	67.41%

EXHIBIT No. 4

AGREEMENT

This Agreement made and entered into this 1st day of December, 1941, by and between H. L. Hoffman, First Party, sometimes herein designated as "Hoffman," and H. G. Schmieter, Second Party, sometimes herein designated as "Schmieter,"

Witnesseth:

Whereas, Mission Bell Radio Mfg. Co., Inc., hereinafter referred to as "Mission Bell," is a corporation having an authorized capital of Five Hundred (500) shares of common stock, of the par

Exhibit No. 4—(Continued)

value of One Hundred Dollars (\$100.00) per share, and there are issued and outstanding Four Hundred Thirteen (413) shares of said stock, of which Schmieter is the owner and in possession of One Hundred Ten (110) shares; and

Whereas, the Board of Directors of said corporation, according to the Minutes of said corporation, consists of the following:

P. L. Fleming, Director, President and Chairman of the Board;

H. G. Schmieter, Director, Vice-President and Treasurer;

M. Penny, Director and Secretary;

but the said Schmieter asserts and declares that his election and appointment in the above capacities, were not consented to or acquiesced in by him, nor has he ever accepted such election or appointment, or served in such capacity since his appointment when last made; and

Whereas, Hoffman is desirous of purchasing from Schmieter the One Hundred Ten (110) shares of said stock in said Mission Bell;

Whereas, Schmieter understands and believes said Mission Bell Co. is in financial difficulties and will be unable to continue in business unless additional funds are secured by [397] borrowing or otherwise;

Now, Therefore, for and in consideration of the premises and other good and valuable consideration, the parties hereto do agree as follows, to-wit:

Schmieter agrees to sell to Hoffman, and Hoffman agrees to purchase from Schmieter, the said

Exhibit No. 4—(Continued)

One Hundred Ten (110) shares of stock in Mission Bell, held and owned by Schmieter, at and for the total sum of Four Thousand One Hundred Eighty Dollars (\$4180.00), payable in the following manner, and subject to the following terms and conditions, to-wit:

Upon the execution of this agreement, Hoffman agrees to pay unto Schmieter the sum of One Hundred Dollars (\$100.00), and thereafter, each and every month, a sum equal to One per cent (1%) of the gross sales of all merchandise of Mission Bell, said monthly payments to be made on or before the 10th day of each and every month, beginning on the 10th day of January, 1942,—the amount of each payment to be based upon the gross sales for the preceding calendar month.

The unpaid balance shall bear interest at the rate of Three per cent (3%) per annum, payable monthly, and such interest payments shall be in addition to the principal payments above provided for, but in any event Hoffman agrees to pay a minimum sum of One Hundred Dollars (\$100.00) per month, even though One per cent (1%) of the gross sales for the preceding month do not equal that amount.

It is further understood and agreed that in any event the balance of the purchase price shall become due and payable and shall be paid by Hoffman to Schmieter on or before Thirty-six (36) months from the date the first payment is to be made as herein provided.

Schmieter agrees, immediately upon the pay-

Exhibit No. 4—(Continued)

ment of the first One Hundred Dollars (\$100.00) hereinabove provided for, [398] to properly endorse and deliver and cause to be transferred to Hoffman on the books of the corporation, the said One Hundred Ten (110) shares of Mission Bell stock, and Hoffman agrees to forthwith cause the new certificates issued in lieu of those transferred to the said Hoffman, to be endorsed to Schmieter as pledgee and delivered to Schmieter as collateral security for the performance by Hoffman of the terms and conditions of this agreement, and Hoffman hereby agrees that in the event of the default in the payment by Hoffman, of the sums to be paid to Schmieter as herein provided, or any installment thereof, when due, that the said Schmieter shall be and he is hereby invested irrevocably with full authority to retain, use, transfer, hypothecate, sell or convey the said collateral shares of stock, or cause the same to be done at public or private sale, with or without advertisement, notice or demand of any sort, and at such place and upon such terms as the said Schmieter, his successors or assigns deem best, and the said Schmieter, or his successors or assigns, shall be and they and each of them are hereby authorized to purchase said collateral stock when sold, for his, their or its protection, and the proceeds of such sale, transfer or hypothecation shall be applied to the payment of the obligations herein provided for, together with all protests, damages, interest, costs, fees and charges due under this agreement, or incurred by reason of such non-

Exhibit No. 4—(Continued)

payment when due, or any installment or installments thereof as in this agreement provided, or in execution of the power herein granted.

The surplus, after the payment of said obligations, together with the charges above stated, if any, shall be paid to Hoffman, but in the event the proceeds of the above sale or sales be not sufficient to pay said obligations, then Schmieter [399] waives any right to any deficiency under the terms and conditions of this agreement, and Hoffman shall not be liable for any such deficiency to the said Schmieter, his successors or assigns. In any and every event and whether said stock be retained, sold or otherwise disposed of, Hoffman shall have no personal obligation under this agreement except for the payment of the \$100.00 first to be paid and for any breach of this contract by Hoffman, Schmieter shall have recourse against, and only against said stock pledged as above provided.

Hoffman shall in any event, at all times when he is not in default under the terms and conditions of this agreement, be entitled to receive, have and take all dividends which may be properly declared upon said stock; provided that in the event he is in default, his right to such dividends shall ipso facto cease and terminate.

In the event Hoffman shall pay in full to the said Schmieter, at the times and in the manner herein provided for, all sums due the said Schmieter as herein provided, then Schmieter shall, upon demand, re-deliver said stock to Hoffman, and shall

Exhibit No. 4—(Continued)

execute and perform all other acts necessary to be performed by him for the re-transfer thereof to Hoffman.

Hoffman shall at all times while said stock is hypothecated with Schmieter, and when Hoffman is not in default under the terms and conditions hereof, be entitled to the absolute right to vote such stock.

Schmieter further agrees, upon the payment of said sums, the transfer of said stock, and the hypothecation thereof, as herein provided, to forthwith deliver his resignation to Mission Bell as Director, Vice-President and Treasurer, and as to any other office or position which the records of said corporation may show he has been appointed or elected to. [300]

Schmieter agrees to relinquish any and all claims of every kind or character, which he may have against said corporation, except such right as may be created by the hypothecation of the stock above mentioned, and further agrees to fully release and discharge said corporation from any and all indebtedness to him.

It is specifically understood and agreed that Hoffman may at any time prior to the due date of the payments to be made as hereinabove provided, pay the full amount of the purchase price of said stock to the said Schmieter, and thereupon the said Schmieter shall re-transfer said stock to the said Hoffman as hereinabove provided.

Hoffman agrees that he will render, or will cause Mission Bell to render, to Schmieter, on the 10th

Exhibit No. 4—(Continued)

day of each and every month, a full, true and correct statement of the gross sales of merchandise made by Mission Bell during the preceding month, and Schmieter shall have the right at all reasonable times, but not more than once a month, however, to examine the books of said corporation for the purpose of determining the gross sales for any month or months, at all times during the life of this agreement.

It is further understood that Hoffman is endeavoring to enter into contracts with all other stockholders of said corporation for the purchase of their stock in said corporation, and that the Directors of said corporation are by resolution to employ Hoffman as General Manager, and agree that said corporation shall pay Three per cent (3%) of the gross sales of all merchandise sold by said Mission Bell, as a partial consideration for the services of Hoffman as General Manager, and that thereafter any present Directors shall resign, and elect in their place Directors to be named by Hoffman; provided that [401] since Schmieter has never accepted the appointment as a Director or officer of said corporation, he shall not be required to perform any act as such, or to join in said resolution, but he hereby gives his personal consent thereto.

It is understood between the parties hereto that Schmieter has not been actively connected with the management or operation of said company for more than one (1) year last past, and further that

Exhibit No. 4—(Continued)

said Hoffman shall be authorized to borrow for such corporation and from time to time such sums as he may deem advisable on such terms as he may see fit.

Schmieter has examined the balance sheet of said company as of October 31, 1941, as prepared by employees of Mission Bell, has initialled a copy thereof for identification, and delivered such copy to Hoffman.

Schmieter represents to Hoffman that he has not personally, for or on behalf of the corporation, incurred any liabilities which are not disclosed by said balance sheet, that he believes said balance sheet to truly and correctly reflect all the direct and contingent liabilities of the corporation, and that he has no personal knowledge of any liabilities of any kind which are not reflected by said balance sheet.

In the event any attachment or execution is levied upon any assets of the company, and the said Mission Bell or the said Hoffman fails to secure or cause to be secured a release thereof within ten (10) days after such levy, then Schmieter shall have the right, either alone or in conjunction with other stockholders, to effect a release of the lien of such attachment or execution, and in the event of such failure on the part of Mission Bell or Hoffman, then at Schmieter's option such failure to cause such release shall be deemed to be a default of the terms and conditions hereof, and the full amount of the purchase price shall forthwith be-

Exhibit No. 4—(Continued)

come due and [402] payable, subject, however, to the terms and conditions hereof, relative to the release of any personal liability of Hoffman for any deficiency, and the said Schmieter shall be entitled thereupon to sell or otherwise dispose of the stock so hypothecated, for the purpose of satisfying the obligations due him thereunder, as hereinabove **provided.**

Except as otherwise herein provided, this agreement shall be binding upon the inure to the benefit of the heirs, successors and assigns of the parties hereto.

If on or before ten days after date of this agreement Hoffman shall have failed to enter into contracts for purchase of all outstanding stock in said corporation, Hoffman may forthwith and within said 10 days terminate this contract by a notice in writing addressed to Schmieter at care of Chas. E. R. Fulcher, 411 West 5th St., Los Angeles, California, and deposited in the U. S. Mail at Los Angeles, California, postages prepaid and thereupon each of the parties hereto shall be released from all further obligations hereunder except Schmieter shall retain the \$100.00 paid upon the execution hereof as liquidated damages and the 110 shares of stock now owned by Schmieter shall be retained by him as his property free from any claim by Hoffman and Hoffman agrees to perform all acts necessary to vest such stock in his name upon the books of the corporation.

Exhibit No. 4—(Continued)

In Witness Whereof, the parties hereto have executed this agreement the day and year first hereinabove written.

/s/ H. L. HOFFMAN,
First Party.

/s/ H. G. SCHMIETER,
Second Party. [403]

EXHIBIT No. 5

This Agreement, executed in triplicate at Los Angeles, California, December 4th, 1941, by and between H. L. Hoffman, first party, sometimes hereinafter designated as "Hoffman," and Franklyn Warner and Helen E. Warner, second party, sometimes hereinafter designated as "Warner,"

Witnesseth:

The parties herein contracting do so with reference to the following facts:

Mission Bell Radio Mfg. Co., Inc., is a California corporation, having an authorized capital of One Thousand (1,000) shares of common stock of the par value of One Hundred Dollars (\$100.00) per share. There are issued and outstanding Four Hundred and Thirteen (413) shares of said stock, of which Warner is the owner and in possession of One Hundred and Ninety-three (193) shares. The board of directors and officers of said corporation, hereinafter sometimes designated as the "company," consist of the following:

Exhibit No. 5—(Continued)

P. L. Fleming, director, president and chairman of the board;

H. G. Schmieter, director, vice-president and treasurer;

M. Penny, director and secretary.

Of said issued shares of stock One Hundred and Ninety-three (193) are owned and/or controlled by Warner; One Hundred and Ten (110) by P. L. Fleming; and One Hundred and Ten (110) by H. G. Schmieter. Said company is in financial difficulties and will be unable to continue in business unless additional funds are secured by borrowing or otherwise. [404]

Now, Therefore, in consideration of the foregoing facts and the promises hereinafter set out on the part of the respective parties hereto, It Is Agreed:

1. Concurrently herewith Warner has sold to Hoffman, and Hoffman has purchased from Warner, One Hundred and Ninety-three (193) shares of said company and in payment thereof Hoffman has delivered to Warner his promissory note in the principal sum of Four Thousand Eight Hundred and Twenty-five Dollars (\$4,825.00), said promissory note being in the form of "Exhibit A" attached hereto and by reference incorporated herein.

2. Expressly for the benefit of said company, as well as for the benefit of Hoffman, Warner hereby relinquishes any and all claims of every kind and character that he may have against said company

Exhibit No. 5—(Continued)

and fully releases and discharges said company from any indebtedness to him.

3. It is understood that Hoffman has purchased or is endeavoring to purchase all of the issued and outstanding stock of said company and that in connection with such purchases Hoffman has obtained or proposes to obtain the agreement of the other stockholders and officers of the company to the effect, among other things, as follows:

(a) That each of them will do or cause to be done each and everything that may be necessary to the end that on or before December 4th, 1941, by a contract duly authorized by the Board of Directors of said company, Hoffman shall be employed as general manager thereof for a term and period of 36 months at a salary to be determined as follows: On or before the 15th day of each calendar [405] month Hoffman shall be paid as partial payment of his salary for the preceding calendar month an amount equal to Three Per Cent (3%) of the gross sales of said corporation for and during such preceding calendar month, and in addition such an amount as may from time to time be agreed upon by Hoffman and the company. Said management agreement shall also provide that said Hoffman may arrange to borrow and may borrow for and on behalf of the company at any time and from time to time such amounts as he may deem desirable and upon such terms as he may see fit. Said management agreement shall be otherwise in form and substance satisfactory to Hoffman and shall specifically provide that the same may be ter-

Exhibit No. 5—(Continued)

minated by Hoffman at any time after February 28, 1942.

(b) That immediately after said management agreement has been executed each of the present officers and directors of said company will resign in such manner that they may be forthwith replaced both as officers and directors by such persons as may be designated by Hoffman.

Warner hereby agrees that on or before December 4th, 1941, Hoffman shall be employed as General Manager of the company in the manner and upon the terms hereinbefore set out, and that the officers and directors of the company shall be replaced as hereinbefore specified and that he will do or cause to be done each and every thing that can be done by him to accomplish the agreed results; provided, however, that Warner shall not be deemed in default hereunder if Hoffman be not so employed or if said officers and directors be not so replaced, unless such results are not obtained because of some failure [406] on the part of Warner to do something which he has the right and power to do.

Notwithstanding anything to the contrary appearing herein, Warner expressly agrees that if Hoffman should be unable within days to purchase all of the stock of said company upon terms satisfactory to him, or if, having purchased the same, he should not be employed as General Manager of the company as above set forth, or if the Board of Directors and officers should not be replaced as hereinbefore specified, then at his op-

Exhibit No. 5—(Continued)

tion Hoffman may terminate this agreement and retransfer and deliver to Warner said One Hundred and Ninety-three (193) shares of stock purchased from Warner and thereupon said promissory note given by Hoffman to Warner shall be canceled and surrendered to Hoffman and each party hereto shall be relieved and released from all further obligation hereunder or under the provisions of said promissory note.

Warner hereby represents and warrants that he has in no way at any time incurred any obligations for and on behalf of Mission Bell Manufacturing Co., Inc., or by any act of his obligated said company in any manner not disclosed by and shown in the books and records of said company.

5. Hoffman expressly agrees that in the event any attachment or execution is levied upon any of the physical assets of the company and for a period of ten (10) days Hoffman fails to secure or cause to be secured a release thereof, then Warner shall have the right, either alone or in conjunction with other stockholders, to effect a release of the lien of [407] such attachment or execution, and thereupon, at Warner's option, this contract may be terminated and in the event of such termination said One Hundred and Ninety-three (193) shares of stock purchased from Warner shall be retransferred and delivered to Warner and said promissory note executed by Hoffman in favor of Warner shall be canceled, but all payments made by Hoffman to Warner on said promissory note shall be retained by Warner as liquidated damages.

Exhibit No. 5—(Continued)

6. Gross sales of merchandise shall be deemed to be all sales of merchandise made by the company after deducting therefrom all merchandise returns and all allowances made for defective merchandise or on account of discounted bills. Warner shall have the right at all reasonable times to examine the books and records of said corporation for the purpose of determining the amount of said gross sales. Hoffman agrees that as long as said promissory note, of which "Exhibit A" is a copy, shall remain in effect, and any portion thereof shall be unpaid, he will cause said company to deliver to the holder of said note at such place in the city of Los Angeles, California, as the holder shall have designated by a notice in writing to said company, a full, true and correct statement of the gross sales of merchandise made by said company during each month and that such statement for each calendar month will be so delivered on or before the 15th day of the succeeding calendar month.

7. This agreement shall be binding upon and shall inure to the benefit of the parties hereto and as well their respective heirs, personal representatives and [408] assigns.

Executed the day and year first above written.

/s/ H. L. HOFFMAN,

Party of the First Part.

/s/ FRANKLYN WARNER,

/s/ HELEN E. WARNER,

Parties of the Second Part.

Exhibit No. 5—(Continued)

EXHIBIT A

Promissory Note

\$4,825.00.

Los Angeles, California,
....., 1941.

In installments and at the times and upon the terms and conditions hereinafter stated, for value received, I promise to pay to Franklyn Warner at, Los Angeles, California, Four Thousand Eight Hundred and Twenty-five Dollars (\$4,825.00). Said principal shall be payable in installments as follows:

On the 15th day of January, 1942, and thereafter on the 15th day of each and every calendar month until the full amount of said principal sum shall have been paid, an amount equal to One Per Cent (1%) of the gross sales of all merchandise sold by Mission Bell Radio Mfg. Co., Inc., a California corporation, during the preceding calendar month, the amount of such gross sales to be determined as provided for in the contract to which reference is hereinafter made; provided always that in no event shall the payment to be made on the 15th day of any calendar month be less than the sum of One Hundred Dollars (\$100.00), and provided further that if on January 15, 1945, any portion of said principal sum remains unpaid, then the whole of the amount so remaining unpaid on said principal sum shall be paid on said 15th day of January, ~~1945~~ 1944 [H.L.H.]

Exhibit No. 5—(Continued)

Should default be made in the payment of any installment of principal when due, then, subject always to the provisions hereof releasing the undersigned from personal liability, the whole sum of principal shall become immediately due and [410] payable at the option of the holder of this note.

The undersigned hereby assigns, pledges and transfers to said Franklyn Warner One Hundred and Ninety-three (193) shares of the common capital stock of Mission Bell Radio Mfg. Co., Inc., represented by Certificates Nos. 23 to 27, inclusive, as security for the full payment of the foregoing note and all indebtedness evidenced thereby and for the performance of each of the agreements of the undersigned herein contained. The undersigned expressly retains all voting rights to **the stock** so assigned, pledged and transferred, and to all dividends paid thereon.

Upon default in the payment of said promissory note or of any installment of principal thereof, the sole right of the holder of this note shall be to receive full title to said One Hundred and Ninety-three (193) shares of stock and to retain any moneys which have heretofore been paid upon this note, and in such event the undersigned authorizes the Mission Bell Radio Mfg. Co., Inc., to transfer said stock on its books to the holder of this note. This note is executed pursuant to and as an integral part of a certain contract dated December 4th, 1941, by and between the undersigned and Franklyn Warner, and is subject to each and all of the

Exhibit No. 5—(Continued)

provisions of said contract, a signed copy of which has been delivered to Mission Bell Radio Mfg. Co., Inc., and may be seen by any person or persons who contemplate acquiring this note or any interest therein.

This note is executed subject to the express condition that it is not negotiable and that the undersigned shall have no personal liability for the indebtedness, or any portion [411] of the indebtedness, evidenced hereby, it being expressly agreed, however, that the holder hereof may assign his interest in this note by way of security or otherwise.

Upon the payment of the indebtedness hereby secured, and as well all other charges accrued hereunder, said One Hundred and Ninety-three (193) shares of stock pledged hereunder shall be forthwith redelivered to the undersigned.

This note is executed subject to the further express condition that the whole or any part of the principal may be paid at any time, and if the whole of the principal is paid within ninety (90) days from the date hereof, then the principal amount of this note shall be reduced to the sum of Four Thousand Two Hundred and Forty-six Dollars (\$4,246.00).

H. L. HOFFMAN. [412]

EXHIBIT No. 6

This Agreement, executed in triplicate at Los Angeles, California, December 4th, 1941, by and between H. L. Hoffman, first party, sometimes hereinafter designated as "Hoffman," and P. L. Fleming, second party, sometimes hereinafter designated as "Fleming,"

Witnesseth:

The parties herein contracting do so with reference to the following facts:

Mission Bell Radio Mfg. Co., Inc., is a California corporation, having an authorized capital of Five Hundred (500) shares of common stock of the par value of One Hundred Dollars (\$100.00) per share. There are issued and outstanding Four Hundred and Thirteen (413) shares of said stock, of which Fleming is the owner and in possession of One Hundred and Ten (110) shares. The board of directors and officers of said corporation, hereinafter sometimes designated as the "company," consist of the following:

P. L. Fleming, director, president and chairman of the board;

H. G. Schmieter, director, vice-president and treasurer;

M. Penny, director and secretary.

Of said issued shares of stock One Hundred and Ninety-three (193) are owned and/or controlled by Franklyn Warner, One Hundred and Ten (110) by P. L. Fleming, and One Hundred and Ten by H. G. Schmieter. Said company is in financial difficul-

Exhibit No. 6—(Continued)

ties and will be unable to continue in business unless [413] additional funds are secured by borrowing or otherwise.

Now, Therefore, in consideration of the foregoing facts and the promises hereinafter set out on the part of the respective parties hereto, It Is Agreed:

1. Concurrently herewith Fleming has sold to Hoffman and Hoffman has purchased from Fleming One Hundred and Ten (110) shares of said company and in payment thereof Hoffman has delivered to Fleming his promissory note in the principal sum of Two Thousand Seven Hundred Fifty Dollars (\$2,750.00), said promissory note being in the form of "Exhibit A" attached hereto and by reference incorporated herein.

2. It is understood that said company is indebted to Fleming on a certain promissory note executed by it in favor of Fleming in the principal sum of One Thousand Dollars (\$1,000.00) and certain accrued and unpaid interest, and also in the sum of Fifteen Hundred Dollars (\$1500.00) for salary on account of services rendered by Fleming as an officer of said company. Expressly for the benefit of said company, as well as for the benefit of Hoffman, Fleming agrees that he will take no action to enforce the payment of said note or any part thereof prior to January 15, 1942; that if on January 15, 1942, said company shall pay to Fleming on account of the principal of said note the sum of Eighty-three Dollars and Thirty-

Exhibit No. 6—(Continued)

seven Cents (\$83.37) and thereafter, on or before the 15th day of each succeeding calendar month until the full principal sum of One Thousand Dollars (\$1,000.00) shall have been paid, shall pay to Fleming the sum of Eighty-three Dollars and Thirty-three Cents (\$83.33), Fleming will take no action to enforce the payment of said note or any portion thereof, and when and if [414] the full sum of One Thousand Dollars (\$1,000.00) shall have been so paid, will fully cancel said note, including principal and all interest accrued and unpaid thereon. Fleming further agrees, expressly for the benefit of said company as well as for the benefit of Hoffman, that he will not take any action to enforce his claim against said company for salary earned and unpaid prior to January 15, 1943, and that on January 15, 1943, he will agree to a further extension of the time of payment of such claim unless on or prior to January 15, 1943, said company is in a position to pay dividends on its stock aggregating the sum of Fifteen Hundred Dollars (\$1500.00), it being expressly agreed that, for the purpose of determining whether or not said company is in a position to pay such dividends, salaries paid to officers and/or employees of said company who during said year have been stockholders of said company shall be taken to aggregate not more than Twelve Thousand Dollars (\$12,000.00).

Notwithstanding anything to the contrary appearing in this numbered paragraph, it is expressly agreed that any agreement herein contained on the

Exhibit No. 6—(Continued)

part of Fleming to defer action to collect any money due to him from said company shall be no longer binding if at any time said company shall be adjudicated bankrupt, or if at any time a writ of attachment or writ of execution shall be levied upon any of the physical assets of the company and shall not be released within ten (10) days after the same shall have been levied.

Except as to the promissory note aforesaid in the principal sum of One Thousand Dollars (\$1,000.00), and the [415] Fifteen Hundred Dollars (\$1500.00) owing as aforesaid on account of salary, Fleming, expressly for the benefit of said company, as well as for the benefit of Hoffman, hereby relinquishes any and all claims of every kind and character that he may have against said company and fully releases and discharges said company from any indebtedness to him.

3. It is understood that Hoffman has purchased or is endeavoring to purchase all of the issued and outstanding stock of said company and that in connection with such purchases Hoffman has obtained, or proposes to obtain, the agreement of the other stockholders and officers of the company to the effect, among other things, as follows:

(a) That each of them will do or cause to be done each and every thing that may be necessary to the end that on or before December 4th, 1941, by a contract duly authorized by the board of directors of said company, Hoffman shall be employed or general manager thereof for a term and [416]

Exhibit No. 6—(Continued)

period of 36 months at a salary to be determined as follows: On or before the 15th day of each calendar month Hoffman shall be paid as partial payment of his salary for the preceding calendar month an amount equal to Three Per Cent (3%) of the gross sales of said corporation for and during such preceding calendar month and in addition such an amount as may from time to time be agreed upon by Hoffman and the company. Said management agreement shall also provide that said Hoffman may arrange to borrow and may borrow for and on behalf of the company at any time and from time to time such amounts as he may deem desirable and upon such terms as he may see fit. Said management agreement shall be otherwise in form and substance satisfactory to said Hoffman and shall specifically provide that the same may be terminated by Hoffman at any time after February 28, 1942.

(b) That immediately after said management agreement has been executed each of the present officers and directors of said company will resign in such manner that they may be forthwith replaced both as officers and directors by such persons as may be designated by Hoffman.

Fleming hereby agrees that on or before December 4th, 1941, Hoffman shall be employed as General Manager of the company in the manner and upon the terms hereinbefore set out, and that the officers and directors of the company shall be replaced as hereinbefore specified and that he will

Exhibit No. 6—(Continued)

do or cause to be done each and every thing that can be done by him to accomplish the agreed results; provided, however, that Fleming shall not be deemed in default hereunder if [417] Hoffman be not so employed or if said officers and directors be not so replaced, unless such results are not obtained because of some failure on the part of Fleming to do something which he has the right and power to do.

Notwithstanding anything to the contrary appearing herein, Fleming expressly agrees that if Hoffman should be unable with days to purchase all of the stock of said company upon terms satisfactory to him, or if, having purchased the same, he should not be employed as General Manager of the company as above set forth, or if the Board of Directors and officers should not be replaced as hereinbefore specified, then at his option Hoffman may terminate this agreement and retransfer and deliver to Fleming said One Hundred and Ten (110) shares of stock purchased from Fleming, and thereupon said promissory note given by Hoffman to Fleming shall be canceled and surrendered to Hoffman and each party hereto shall be relieved and released from all further obligation hereunder or under the provisions of said promissory note.

4. Fleming hereby expressly represents and warrants to Hoffman that all of the liabilities of the Mission Bell Radio Mfg. Co., Inc., both fixed and contingent, are disclosed by and shown upon

Exhibit No. 6—(Continued)

that balance sheet of said company of which a copy, initialed by the parties hereto for identification, has been delivered to Hoffman.

5. Hoffman expressly agrees that in the event any attachment or execution is levied upon any of the physical assets of the company and for a period of ten (10) days Hoffman [418] fails to secure or cause to be secured a release thereof, then Fleming shall have the right, either alone or in conjunction with other stockholders, to effect a release of the lien of such attachment or execution, and thereupon, at Fleming's option, this contract may be terminated and in the event of such termination said One Hundred and Ten (110) shares of stock purchased from Fleming shall be retransferred and delivered to Fleming, and said promissory note executed by Hoffman in favor of Fleming shall be canceled, but all payments made by Hoffman to Fleming on said promissory note shall be retained by Fleming as liquidated damages.

6. Gross sales of merchandise shall be deemed to be all sales of merchandise made by the company after deducting therefrom all merchandise returns and all allowances made for defective merchandise or on account of discounted bills. Fleming shall have the right at all reasonable times to examine the books and records of said corporation for the purpose of determining the amount of said gross sales. Hoffman agrees that as long as said promissory note, of which "Exhibit A" is a copy, shall remain in effect and any portion thereof shall be

Exhibit No. 6—(Continued)

unpaid, he will cause said company to deliver to the holder of said note at such place in the city of Los Angeles, California, as the holder shall have designated by a notice in writing to said company, a full, true and correct statement of the gross sales of merchandise made by said company during each month and that such statement for each calendar month will be so delivered on or before the 15th day of the succeeding calendar month. [419]

7. This agreement shall be binding upon and shall inure to the benefit of the parties hereto and as well their respective heirs, personal representatives and assigns.

Executed the day and year first above written.

/s/ H. L. HOFFMAN,

Party of the First Part.

/s/ P. L. FLEMING,

Party of the Second Part.

EXHIBIT A

Promissory Note

\$2,750.00.

Los Angeles, California.

....., 1941.

In installments and at the times and upon the terms and conditions hereinafter stated, for value received, I promise to pay to P. F. Fleming at 10601 Ashton Ave., West Los Angeles, California, Two Thousand Seven Hundred and Fifty Dollars

Exhibit No. 6—(Continued)

(\$2,750.00). Said principal shall be payable in installments as follows:

On the 15th day of January, 1942, and thereafter on the 15th day of each and every calendar month until the full amount of said principal sum shall have been paid, an amount equal to One Per Cent (1%) of the gross sales of all merchandise sold by Mission Bell Radio Mfg. Co., Inc., a California corporation, during the preceding calendar month, the amount of such gross sales to be determined as provided for in the contract to which reference is hereinafter made; provided always that in no event shall the payment to be made on the 15th day of any calendar month be less than the sum of One Hundred Dollars (\$100.00), and provided further that if on January 15, 1944, any portion of said principal sum remains unpaid, then the whole of the amount so remaining unpaid on said principal sum shall be paid on said 15th day of January, 1944.

Should default be made in the payment of any installment of principal due, then, subject always to the provisions hereof releasing the undersigned from personal liability [421] the whole sum of principal shall become immediately due and payable at the option of the holder of this note.

The undersigned hereby assigns, pledges and transfers to said P. L. Fleming One Hundred and Ten (110) shares of the common capital stock of Mission Bell Radio Mfg. Co., Inc., represented by Certificates Nos. as security for the

Exhibit No. 6—(Continued)

full payment of the foregoing note and all indebtedness evidenced thereby and for the performance of each of the agreements of the undersigned herein contained. The undersigned expressly retains all voting rights to the stock so assigned, pledged and transferred, and to all dividends paid thereon.

Upon default in the payment of said promissory note or of any installment of principal thereof, the sole right of the holder of this note shall be to receive full title to said One Hundred and Ten (110) shares of stock and to retain any moneys which have heretofore been paid upon this note, and in such event the undersigned authorizes the Mission Bell Radio Mfg. Co., Inc., to transfer said stock on its books to the holder of this note. This note is executed pursuant to and as an integral part of a certain contract dated, 1941, by and between the undersigned and P. L. Fleming and is subject to each and all of the provisions of said contract, a signed copy of which has been delivered to Mission Bell Radio Mfg. Co., Inc., and may be seen by any person or persons who contemplate acquiring this note or any interest therein.

This note is executed subject to the express condition that it is not negotiable and that the undersigned shall have no personal liability for the indebtedness, or any portion of the indebtedness, evidenced hereby, it being expressly agreed, however, that the holder hereof may assign his interest [422] in this note by way of security or otherwise.

Exhibit No. 6—(Continued)

Upon the payment of the indebtedness hereby secured, and as well all other charges accrued hereunder, said One Hundred and Ten (110) shares of stock pledged hereunder shall be forthwith re-delivered to the undersigned.

This not is executed subject to the further express condition that the whole or any part of the principal may be paid at any time and that, if the whole of the principal be paid within ninety (90) days from the date hereof, then the principal amount of this note shall be reduced to the sum of Two Thousand Four Hundred and Twenty Dollars (\$2,420.00).

/s/ H. L. HOFFMAN. [423]

EXHIBIT No. 7

This Agreement, executed in quadruplicate at Los Angeles, California, December 9th, 1941, by and between H. L. Hoffman, first party, sometimes hereinafter designated as "Hoffman," G. Gifford Davidge, second party, sometimes hereinafter designated as "Davidge," and Walter D. Douglas, third party, sometimes hereinafter designated as "Douglas,"

Witnesseth:

The parties herein contracting do so with reference to the following facts:

Mission Bell Radio Mfg. Co., Inc., hereinafter sometimes designated as "Mission Bell," is a California corporation, having an authorized capital

Exhibit No. 7—(Continued)

of Five Hundred (500) shares of common stock of the par value of One Hundred Dollars (\$100.00) per share. There are issued and outstanding Four Hundred Thirteen (413) shares of said stock.

Under date of December 1, 1941, Hoffman entered into a contract in writing with one H. G. Schmieter relative to the purchase from Schmieter of One Hundred Ten (110) shares of said stock for the sum of Four Thousand One Hundred Eighty Dollars (\$4,180.00). Said contract provides, among other things, for the payment of One Hundred Dollars (\$100.00) on account of the purchase price upon the execution of the contract, and for payments on account of the balance of the purchase price in equal installments on the 10th day of each calendar month beginning January 10, 1942 (each such installment to be an amount equal to One Per Cent [424] (1%) of the gross sales of all merchandise of said Mission Bell during the preceding calendar month) and, further, that the unpaid balances of the purchase price shall bear interest at annum [G.D.] the rate of Three Per Cent (3%) per ~~month~~, payable monthly, and that the payments on account of the principal shall be not less than One Hundred Dollars (\$100.00) each month, and for the payment in full thirty-six (36) months from the date of the first payment of any balance then unpaid on the principal amount. Said contract further provides in effect that Hoffman is to be employed as General Manager of Mission Bell and as part compensation for his services shall receive a monthly

Exhibit No. 7—(Continued)

sum equal to Three Per Cent (3%) of the gross sales of all merchandise of Mission Bell during the preceding calendar month. Said contract also provides in effect that after Hoffman shall have been so employed as manager the officers and directors of Mission Bell shall be replaced by officers and directors designated by Hoffman. Each of the parties hereto is familiar with said contract and the same is by reference incorporated herein. Hoffman has heretofore paid the One Hundred Dollars (\$100.00) to be paid as in said contract provided upon the execution thereof and the One Hundred Ten (110) shares of stock with which said contract deals have been issued to Hoffman and have been by him pledged with Schmieter as security for the performance of Hoffman's obligations in and under said contract.

Under date of December 4, 1941, Hoffman entered into a contract in writing with Franklyn Warner and Helen E. Warner, hereinafter referred to as "the Warners," whereby Hoffman purchased from the Warners One Hundred Ninety-three [426] (193) shares of the stock of Mission Bell and gave therefor his promissory note in the principal sum of Four Thousand Eight Hundred Twenty-five Dollars (\$4,825.00). Said promissory note provides that the principal thereof shall be payable in equal installments each calendar month, commencing on 15th day of January, 1942, each of such installments to be an amount equal to One Per Cent (1%) of the gross sales of all merchandise sold by Mission Bell

Exhibit No. 7—(Continued)

during the preceding calendar month provided that no installment payment shall be less than the sum of One Hundred Dollars (\$100.00), and for the payment in full on January 15, 1944, of any balance then unpaid on the principal amount. Said contract with said Warners, hereinafter sometimes referred to as "the Warner contract," provides for the employment of Hoffman as General Manager of Mission Bell and for the appointment of directors and officers of Mission Bell, substantially as provided for in the Schmieter contract aforesaid. Each of the parties hereto is familiar with said Warner contract and said promissory note and the same are by reference incorporated herein.

Under date of December 4, 1941, Hoffman entered into a contract in writing with P. L. Fleming, hereinafter sometimes referred to as "the Fleming contract," whereby Hoffman purchased from Fleming One Hundred Ten (110) shares of the stock of said Mission Bell, for which Hoffman executed his promissory note in the principal sum of Two Thousand Seven Hundred Fifty Dollars (\$2,750.00). Said promissory note provides that the principal thereof shall be payable in ~~equal~~ [H.L.H., G.D.] installments each calendar month, commencing on the 15th day of January, 1942, each of such installments to be an amount equal to One Per cent (1%) of the gross sales of all merchandise sold by Mission Bell during the preceding calendar month, provided that no installment payment shall be less than the sum of One Hundred Dollars (\$100.00), and for the

Exhibit No. 7—(Continued)

payment in full on January 15, 1944, of any balance then unpaid on the principal amount. Said contract with said Fleming provides for the employment of Hoffman as General Manager of Mission Bell and for the appointment of directors and officers of Mission Bell substantially as provided for in the Schmieter and Warner contracts aforesaid. Each of the parties hereto is familiar with said Fleming contract and said promissory note and the same are by reference incorporated herein.

Said Mission Bell is in financial difficulties and the same cannot be continued in operation unless money can be borrowed for the use of said corporation, and there is a question as to whether said Mission Bell can be operated successfully even if money can be secured by borrowing. Hoffman is willing to lend Two Thousand Dollars (\$2,000.00) to said Mission Bell under the circumstances and upon the conditions hereinafter set forth and each of the other parties hereto, upon the conditions hereinafter set forth and not otherwise, is willing to lend the sum of Four Thousand Dollars (\$4,000.00) to said Mission Bell.

Now, Therefore, in consideration of the foregoing facts and the promises hereinafter set forth on the part of the respective parties hereto, It Is Agreed:

1. There shall be lent to Mission Bell forthwith [427] the sum of Ten Thousand Dollars (\$10,000.00). Of said sum Hoffman agrees to contribute the sum of Two Thousand Dollars (\$2,000.00);

Exhibit No. 7—(Continued)

Davidge agrees to contribute the sum of Four Thousand Dollars (\$4,000.00), and Douglas agrees to contribute the sum of Four Thousand Dollars (\$4,000.00). The loan so made to Mission Bell shall be evidenced by a promissory note payable on demand, executed by the corporation in favor of Hoffman as trustee for himself, Davidge and Douglas, and the respective interests of the persons named in said promissory note and the security therefor shall be in proportion to their contributions and without priority of one interest over the other. The determination of what is to be done or not done with reference to said promissory note and/or the indebtedness evidence thereby may be made by the contributors of a majority in amount of the money lent to said Mission Bell and Hoffman agrees to act in accordance with any such determination.

2. It is understood and agreed that the parties hereto shall constitute the Board of Directors of Mission Bell; that Hoffman shall be the President and General Manager thereof; that Davidge shall be the Vice-President thereof and that Douglas shall be the Secretary and Treasurer thereof. Each of the parties hereto agrees to do such things as are proper and lawful to the end that the agreements set out in this numbered paragraph may be made effective.

the rights which he has in and to the stock of said Mission Bell and in and under said contracts with

Exhibit No. 7—(Continued)

Schmieter, with the Warners and with Fleming are held by him in trust for the benefit of himself, Davidge and Douglas for the purpose of [428] making effective each and all of the agreements contained in this contract.

4. When and if Hoffman shall have obtained full and complete ownership of the stock covered by said contracts with Schmieter, the Warners and Fleming, free and clear of any claims arising out of said contracts and/or the promissory notes referred to in the contracts with the Warners and Fleming, Fifty Per Cent (50%) of said stock shall be issued to and in the name of Hoffman and shall be held by him in his own right and not as trustee. Twenty-five Per Cent (25%) thereof shall be issued to and shall be held by Davidge as his own separate property, and Twenty-five Per Cent (25%) thereof shall be issued to and shall be held by Douglas as his own separate property, and thereupon the trust relating to the rights in said contracts and said stock shall terminate.

5. If at any time any two of the parties to this contract shall determine that the operations of Mission Bell cannot be continued successfully, then Hoffman shall make no further payments to Schmieter as provided in said contract with Schmieter, and Hoffman shall make no further payments upon the aforesaid promissory note to Franklyn Warner or on the said promissory note to Fleming, and Hoffman shall do those things which are to be done by him in such event as provided in the respective contracts with Schmieter, the War-

Exhibit No. 7—(Continued)

ners and Fleming, and thereupon the trust relative to the rights in said stock and the rights under said contracts shall terminate.

6. Hoffman agrees that while he is General Manager [429] of Mission Bell and is receiving as whole or part compensation for his services an amount based upon the gross sales of Mission Bell and equal to Three Per Cent (3%) of such gross sales he will use that portion of his salary which is equal to Three Per Cent (3%) of such gross sales to make the payments provided for in said contracts with Schmieter, the Warners and Fleming and the promissory notes executed by him as aforesaid in favor of Franklyn Warner and Fleming. If in any month the amount equal to One Per Cent (1%) of the gross business done by Mission Bell during the preceding month which is to be paid under the provisions of each of said contracts relating to the purchase by Hoffman of stock in said Mission Bell is less than the One Hundred Dollar (\$100.00) minimum payment to be made as in each of said contracts provided, then the amount of the difference shall be contributed by the parties hereto in the following proportions: One-half ($\frac{1}{2}$) thereof by Hoffman; One-fourth ($\frac{1}{4}$) thereof by Davidge; and One-fourth ($\frac{1}{4}$) thereof by Douglas. The amounts required to pay interest to Schmieter as provided in the contract with him shall be contributed in like manner by the parties hereto. None of said contributions shall be made when and if it shall have been determined that no further payments are to be made under said contracts or upon the promissory notes in favor of Franklyn Warner and Fleming.

Exhibit No. 7—(Continued)

7. An executed copy of this agreement shall be filed with Mission Bell to evidence the interest of the respective parties hereto in and to the stock of said corporation.

8. None of the parties hereto shall transfer, assign, hypothecate or otherwise dispose of any interest in and under this contract and/or in and to any interest in any trust declared and/or created hereby; provided, however, that nothing herein contained shall prevent the interest of any such party from passing by testamentary disposition or by the laws of succession, but nothing herein contained shall give to any person other than Hoffman any right to be the General Manager of Mission Bell except with the consent of the other parties hereto. As between the parties hereto it is agreed that in the event of Hoffman's death one of the other parties hereto may be made General Manager of Mission Bell and may receive compensation for his services as such similar to that received by Hoffman, and in such event a portion of his compensation equal to Three Per Cent (3%) of the gross sales of Mission Bell shall be used to make the monthly payments to be made under the provisions of said contracts with Schmieter, the Warners and Fleming.

Executed the day and year first above written.

/s/ H. L. HOFFMAN,

/s/ G. GIFFORD DAVIDGE,

/s/ WALTER D. DOUGLAS. [431]

EXHIBIT No. 8

STOCK OWNERSHIP

HOFFMAN RADIO CORPORATION

	H. L. Hoffman	W. D. Douglas	G. C. Davidge
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Common Stock

413 shares outstanding in the month of December, 1941, and the years 1942 and 1943.

Ownership of record.....	411	1	1
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	H. L. Hoffman	W. D. Douglas	G. C. Davidge
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On January 2, 1944, certificates endorsed to show ownership and Wife as follows

	206 $\frac{1}{2}$	103 $\frac{1}{4}$	103 $\frac{1}{4}$
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Preferred Stock

725 shares of stock authorized and paid for in 1943, and certificates issued January 2, 1944, as follows.....

	125	415	185
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EXHIBIT No. 9
 HOFFMAN RADIO CORPORATION—COMPARATIVE BALANCE SHEET
 1941-1943 INCLUSIVE

ASSETS

Current Assets

	Jan. 1, 1941	Dec. 31, 1941	Dec. 31, 1942	Dec. 31, 1943
Cash	\$ 785.14	\$ 3,140.41	\$ 11,830.51	\$ 62,628.22
U. S. Treasury Notes.....	.....	.....	.....	50,000.00
Notes and Accounts Receivable.....	5,682.97	667.72	61,820.94	354,264.36
Inventories	13,930.60	9,128.53	52,618.16	242,061.96
Development Advance Receivable.....	.....	.....	.....	84,502.61

Fixed Assets

Land, Buildings, and Machinery.....	\$ 2,718.65	\$ 2,456.65	\$ 21,062.89	\$ 84,434.59
Reserve for Depreciation.....	2,018.46	2,275.71	3,924.54	20,441.69

Other Assets

Total Assets

Other Assets	\$ 700.19	\$ 180.94	\$ 17,138.35	\$ 63,992.90
Total Assets	\$ 20,274.74	\$ 5,988.77	\$ 4,213.99	\$ 20,098.64
	\$ 41,373.64	\$ 18,206.37	\$ 147,621.95	\$ 877,548.69

Exhibit No. 9—(Continued)

LIABILITIES AND CAPITAL

	Jan. 1, 1941	Dec. 31, 1941	Dec. 31, 1942	Dec. 31, 1943
Current Liabilities				
Accounts Payable	\$ 7,685.91	\$ 13,064.26	\$ 71,414.58	\$ 97,122.60
Notes Payable .....	.....	1,000.00	30,000.00	233,448.17
Accrued Expenses	1,199.27	1,254.83	9,317.80	151,935.40
Reserve for Federal Taxes .....	.....	.....	.....	* 137,146.38
Reserve for Renegotiation .....	.....	.....	.....	51,192.00
	<u>\$ 8,885.18</u>	<u>\$ 15,319.09</u>	<u>\$ 110,732.38</u>	<u>\$ 670,844.55</u>
Deferred Liabilities				
Mortgage Payable .....	.....	.....	.....	\$ 27,000.00
Reserve for Contract Guarantee.....	.....	.....	.....	22,641.30
				<u>\$ 49,641.30</u>
Capital Accounts				
Capital Stock—Preferred	\$	\$	\$	\$ 72,500.00
Capital Stock—Common	41,300.00	41,300.00	41,300.00	41,300.00
Surplus—Paid in	10,373.71	10,373.71	10,373.71	10,373.71
Surplus—Earned	19,185.25**	48,786.43**	14,784.14**	* 32,889.13
	<u>\$ 32,488.46</u>	<u>\$ 2,887.28</u>	<u>\$ 36,889.57</u>	<u>\$ 157,062.84</u>
Total Liabilities and Capital.....	<u>\$ 41,373.64</u>	<u>\$ 18,206.37</u>	<u>\$ 147,621.95</u>	<u>\$ 877,548.69</u>

* Computation does not reflect the tax deficiency on the deduction disallowance at issue herein.

EXHIBIT No. 10

HOFFMAN RADIO CORPORATION

ANALYSIS OF REVISED SURPLUS

	Dr.	Cr.	
Balance 12/31/39 per Books.....			\$ 8,293.75*
Loss for Year 1940.....	\$ 11,891.50		
Adjustment Paid in Surplus..		\$ 1,000.00	
Balance 12/31/40			19,185.25*
Loss 1941	15,470.54		
Write Off of Goodwill.....	14,130.64		
Balance 12/31/41			48,786.43*
Profit 1942		36,389.06	
1942 Income Tax	2,386.77		
Balance 12/31/42			14,785.14*
Profit 1943		171,432.94	
1943 Income Tax	137,146.38†		
Post War Refund		13,386.71†	
Balance 12/31/43			32,889.13†

† Computation does not reflect the tax deficiency on the deduction disallowance at issue herein.

* Figures in red.

EXHIBIT No. 11

 HOFFMAN RADIO CORPORATION (Formerly Mission Bell Radio Mfg. Co., Inc.)
 COMPARATIVE PROFIT AND LOSS STATEMENT—Years 1940-1943 Inclusive

	1940	1941	1942	1943
Net Sales	\$ 121,812.16	\$ 29,763.83	\$ 351,950.62	\$ 1,787,850.14
Cost of Sales	99,677.60	30,930.30	259,365.15	1,354,803.95
Gross Profit on Sales.....	\$ 22,134.56	(1,166.48)	\$ 92,585.47	\$ 433,046.19
Other Income	839.81	3,769.74	1,448.57	.....
Total Income	\$ 22,974.37	\$ 2,603.26	\$ 94,034.04	\$ 433,046.19
Expenses (other than compensation of Pres. and Vice-Pres.)..	\$ 24,665.87	\$ 15,709.80	\$ 31,712.28	\$ 175,828.97
Net Income before compensation of Officers and before Federal Taxes	(\$ 1,697.50)	(\$ 13,106.54)	\$ 62,321.76	\$ 257,217.22
Compensation of President and Vice President.....	\$ 10,200.00	\$ 2,364.00	\$ 25,932.70	\$ 85,784.28*
Net Income before Federal Taxes.....	(\$ 11,891.50)	(\$ 15,470.54)	\$ 36,389.06	\$ 171,432.94*
Federal Income and Excess Profits Taxes.....	None	None	\$ 2,386.77	\$ 123,759.67*
Net Income after Taxes.....	(\$ 11,891.50)	(\$ 15,470.54)	\$ 34,002.29	\$ 47,673.27*
Dividends Paid	None	None	None	None

EXHIBIT No. 12

Minutes of Special Meeting of Board of Directors
of Mission Bell Radio Mfg. Co. Inc.

A Special Meeting of the Board of Directors of Mission Bell Radio Mfg. Co. Inc., was held on December 4th, 1941, at the hour of 3:00 o'clock P.M. immediately following the meeting of Stockholders. Present at said meeting were the following directors: P. L. Fleming and M. E. Penney. There was also present at said meeting Mr. H. L. Hoffman, a stockholder of this corporation who holds 108 shares of the capital stock of this corporation acquired from H. G. Schmieter. The Chairman called the meeting to order and the following proceedings were had:

It was brought to the attention of the Board that Director H. G. Schmieter had transferred and assigned his stock in this corporation and had tendered his resignation dated December 1, 1941, as Vice-President and Treasurer and as a member of the Board of Directors. Upon motion duly made, seconded and unanimously carried the resignation of said H. G. Schmieter was accepted.

A vacancy in the Board existing by reason of the foregoing resignation, upon motion duly made, seconded and carried, Mr. H. L. Hoffman was nominated and duly elected as a Director of this corporation in the place and stead of said H. G. Schmieter. Mr. H. L. Hoffman being present accepted said office. [436]

The matter then came before the Board of employing H. L. Hoffman as the General Manager of

Exhibit No. 12—(Continued)

this corporation. Thereupon and upon motion duly made, seconded and unanimously carried, the following resolution was unanimously adopted:

Resolved: That P. L. Fleming, as President, and M. E. Penney, as Secretary be and they are hereby authorized and directed for and on behalf of this corporation to have prepared and to execute a contract for and on behalf of this corporation to and with said H. L. Hoffman wherein and whereby said H. L. Hoffman shall be employed by this corporation as General Manager thereof for a term and period of thirty-six (36) Months from and after the date hereof, at a salary to be computed as follows, to wit: On or before the 15th day of each calendar month said Hoffman shall be paid as partial payment for his services for each preceding calendar month a sum equal to 3% of all gross sales of this corporation for and during such each preceding calendar month, and in addition thereto said Hoffman shall be paid such other amounts as may from time to time hereafter be agreed upon between this corporation and said H. L. Hoffman. That said contract shall further provide that said Hoffman shall have the power and be authorized to borrow for and on behalf of this corporation at any time and from time to time such amounts as he may deem desirable and upon such terms as he may see fit. By said contract said H. L. Hoffman will agree to render such services as General Manager for the period of thirty-six months above specified, subject to the right of said Hoffman to ter-

Exhibit No. 12—(Continued)

minate said agreement at any time on or after February 28th, 1942, as he may elect.

Mr. Hoffman then advised the Board that he had negotiations pending to acquire the stock of this corporation owned by M. E. Penney, J. Baum and Helen Warner.

Mr. Fleming advised the Board that under and pursuant to a transaction pending between H. L. Hoffman and Helen Warner whereby Hoffman may acquire the stock of said Helen Warner, that in order to consummate the same said Helen Warner and her husband Franklyn Warner require a release to be executed [437] by this corporation releasing said Helen Warner and Franklyn Warner of any and all claims of any kind or character which this corporation may have or may assert as against them or either of them.

The Board was then advised that this corporation has no claims as against said Helen Warner and Franklyn Warner, but that nevertheless in order that said transaction of Mr. Hoffman with them might be consummated it was the concensus of opinion that this corporation should execute such release. Thereupon on motion duly made, seconded and carried, the following resolution was unanimously adopted:

Resolved: That P. L. Fleming, as President of this corporation be, and he is hereby authorized to execute a release for and on behalf of this corporation releasing and discharging said Helen Warner and/or Franklyn Warner from any and all

Exhibit No. 12—(Continued)

claims of any kind or character which this corporation may have or may assert as against said Helen Warner and/or Franklyn Warner.

Mr. Hoffman thereupon requested the Board to adjourn and recess this meeting for a period of thirty minutes. Thereupon upon motion duly made, seconded and carried the meeting was adjourned and recessed for one-half hour.

The meeting of the Board reconvened at 3:30 P.M., same day, and same persons being present. Mr. Hoffman advised the Board that during the recess period he had consummated his transaction for the acquisition of the stock of M. E. Penney, J. Baum and Helen Warner, and also consummated a transaction for the acquisition of the stock of P. L. Fleming. Thereupon M. E. Penney tendered her resignation as Secretary and as a Director of this corporation. Upon motion duly made, seconded and carried said resignation was accepted. In order to fill the vacancy created by the resignation of said M. E. Penney, Mr. Walter Douglas, II. was thereupon unanimously elected a Director of this corporation in the place and stead of said M. E. Penney.

Mr. P. L. Fleming then tendered his resignation as President and as a Director of this corporation, which resignation, on motion duly made, seconded and carried, was accepted. Thereupon on motion duly made, seconded and carried, Mr. Gifford Davidge was elected as a Director of this corporation in the place and stead of P. L. Flem-

Exhibit No. 12—(Continued)

ing. Mr. Douglas and Mr. Davidge both being present accepted said offices.

By reason of the foregoing proceedings the Board of Directors consisting of H. L. Hoffman, Walter Douglas, II. and Gifford Davidge assumed their respective positions as Directors, and proceeded to and did by motion moved, seconded and unanimously carried elect the following to be officers of this corporation, to wit: H. L. Hoffman, as President, Walter Douglas, II. as Vice-President and Treasurer, and Gifford Davidge as Secretary.

There being no further business to come before the meeting, the same was on motion duly made, seconded and carried, adjourned.

/s/ P. L. FLEMING,
/s/ M. E. PENNEY,
/s/ H. L. HOFFMAN,
/s/ WALTER DOUGLAS, II.,
/s/ GIFFORD DAVIDGE. [439]

EXHIBIT No. 13

Meeting of the Board of Directors of the Mission
Bell Radio Mfg. Co., Inc.

Held at 3765 South Broadway Place, Los Angeles, California, on the 14th day of May, 1942.

We, the undersigned, being the majority of the Board of Directors of the Mission Bell Radio

Exhibit No. 13—(Continued)

Mfg. Co., Inc., hereby give our written consent to the meeting of the Board of Directors on the above date:

Present:

/s/ H. L. HOFFMAN,

/s/ WALTER D. DOUGLAS.

The meeting was called to order and the following business came before the house:

It was brought before the Board of Directors by Mr. Hoffman that contracts on hand with Bendix Aviation, Ltd., amounted to approximately \$300,000 and that prospects for future military work seemed to be promising. It was also pointed out that our present quarters were not adequate for the volume and type of work that we are doing, and they also do not meet the requirements of the Signal Corps.

Negotiations with the Lloyd Corporation through the Ross W. Campbell Company have been under way for a new lease at 3430 South Hill. The terms of this lease were discussed. A motion was made to accept the lease on certain basis. Copies of these terms are attached to the minutes of this meeting as well as the lease. The motion was seconded and carried.

It was suggested by Mr. Hoffman that copy of our letter of March 10 relative to salary and bonus arrangement with Mr. Walter S. Harmon be recorded in the minutes of the Corporation. This was agreed upon inasmuch as all members of the Board

Exhibit No. 13—(Continued)

of Directors were familiar with this arrangement, and copy of this contract is included in the minutes of the meeting.

The subject of management personal cars was also discussed at this meeting and it was decided that a Packard 1942 Clipper of Mr. H. L. Hoffman would be registered in the Company's name and his account credited with the market value of the car. Mr. Hoffman in turn would take a lien on the car until such time as the car is either paid for or transferred back to Mr. Hoffman. Motion was duly made, seconded and carried. [440] It was also decided that the 1940 Pontiac Station Wagon of Mr. Walter Douglas would also be registered in the Company's name and his account credited with the market value of the station wagon. Mr. Douglas in turn would take a lien on the station wagon until such time as it is either paid for or transferred back to Mr. Douglas. Motion was duly made, seconded and carried.

Salaries for executives of the Company were discussed. It was pointed out by Mr. Hoffman that it would be necessary to terminate his connection with Peerless Electrical Products Company because of his duties at Mission Bell Radio Mfg. Co., and thereby eliminate this source of income. To compensate for this, motion was duly made, seconded and carried that his salary would be set at \$800.00 per month.

Motion was made by Mr. Hoffman that the salary of Mr. Walter D. Douglas be set up on the

Exhibit No. 13—(Continued)

books at \$350.00 per month. Motion was duly seconded and carried.

It was also discussed that officers and members of the Board of Directors who were called into the armed services would be given a leave of absence and paid a nominal salary of \$100.00 per month. Motion duly made, seconded and carried.

Approved:

/s/ H. L. HOFFMAN,
/s/ WALTER D. DOUGLAS,
Treasurer. [441]

Mar. 10, 1942.

Mr. Walter S. Harmon
3765 So. Broadway Pl.
Los Angeles, Calif.

Dear Mr. Harmon:

Confirming our conversation and verbal agreement in January, this letter is to confirm our arrangement at that time. Mission Bell Radio Mfg. Co., Inc., will pay you a salary of Seventy-five Dollars (\$75.00) per week.

In addition to the above, we will pay you an override of one per cent (1%) on the gross volume of business done by the Company after excise tax and other applicable taxes are deducted.

Payment of this bonus will be made annually and semi-annually if agreeable to both parties.

Exhibit No. 13—(Continued)

This arrangement will be applicable to the year 1942 and renewable upon the consent of both parties.

Sincerely yours,

MISSION BELL RADIO MFG.
CO., INC.

By H. L. HOFFMAN, Pres.

HLH:G

EXHIBIT No. 14

Agreement

This Agreement, executed in duplicate at Los Angeles, California, this 4th day of December, 1941, by and between Mission Bell Radio Mfg. Co. Inc., a corporation, hereinafter referred to as First Party, and H. L. Hoffman, of Los Angeles, California, hereinafter referred to as Second Party;

Witnesseth:

That First Party does hereby agree to and does employ Second Party to act and serve as General Manager of this corporation for a period of thirty-six (36) months from and after the date hereof. That for said services Second Party shall be paid as follows, to wit: On or before the 15th day of each calendar month said Second Party shall be paid as partial payment for his services for each preceding calendar month an amount equal to

Exhibit No. 14—(Continued)

three per cent (3%) of all gross sales of this corporation for and during such each preceding calendar month, and in addition thereto First Party will pay to Second Party such other amounts as may hereafter from time to time be mutually agreed upon between the parties hereto.

Said Second Party as such General Manager shall have full authority to carry on and direct the business and dealings of said corporation, and for that purpose shall have full power to make and enter into contracts for and on behalf of said corporation necessary thereto.

It is further distinctly understood and agreed that the Second Party as such general manager shall be and is hereby authorized and empowered to arrange for and borrow for and on behalf of this corporation at any time during the term of said contract of employment and from time to time such amounts as he [443] as said General Manager may deem desirable and necessary, and upon such terms as he may see fit.

Second Party agrees to render services as General Manager of said corporation upon the terms and conditions above provided and for the term above specified, subject to and provided, however, and the parties do now hereby so agree that said Second Party shall have the right to terminate and cancel this agreement and to resign as such General Manager at any time on and after February 28th, 1942.

Exhibit No. 14—(Continued)

In Witness Whereof, the parties hereto have caused these presents to be executed in duplicate the day and year first hereinabove written.

(Seal)

MISSION BELL RADIO MFG.
CO., INC.,

By /s/ P. L. FLEMING,
President.

and By /s/ M. E. PENNEY,
Secretary. "First Party."

/s/ H. L. HOFFMAN,
"Second Party." [444]

EXHIBIT No. 15

March 10, 1942.

Mr. Walter S. Harmon
3765 So. Broadway Pl., Los Angeles, Calif.

Dear Mr. Harmon:

Confirming our conversation and verbal agreement in January, this letter is to confirm our arrangement at that time. Mission Bell Radio Mfg. Co., Inc., will pay you a salary of Seventy-five Dollars (\$75.00) per week.

In addition to the above, we will pay you an override of one per cent (1%) on the gross volume of business done by the Company after excise tax and other applicable taxes are deducted.

Payment of this bonus will be made annually and semi-annually if agreeable to both parties.

Exhibit No. 15—(Continued)

This arrangement will be applicable to the year 1942 and renewable upon the consent of both parties.

Sincerely yours,

MISSION BELL RADIO MFG.
CO., INC.,

By /s/ H. L. HOFFMAN,

HLG:G

President.

EXHIBIT 16

December 16, 1942.

Mr. Walter S. Harmon

3430 South Hill St., Los Angeles, Calif.

Dear Mr. Harmon:

Confirming our verbal agreement, this letter will renew the arrangement we have as of March 10, 1942, covering the salary and override commission of one per cent (1%). This renewal will stay in force for the year 1943 and will be subject to the same terms of renewal as that outlined in our letter of March 10, 1942.

Will you please indicate your acceptance of this program and we will have it filed in the Minutes of our meeting.

Very truly yours,

MISSION BELL RADIO MFG.
CO., INC.,

By /s/ H. L. HOFFMAN,

HLH:ge

President.

Accepted: Walter S. Harmon.

NAME ADDRESS ACCRUED HOFFMAN SALARY

SHEET NO. ONE

215

OLD BALANCE	DATE	INV. NO.	DESCRIPTION	DEBIT	CREDIT	BALANCE
800 00	2/28		JANUARY 1 1943 BALANCE	800 00		800 00
1600 00	FEB		CHECK REG	800 00		1600 00
156 19	MAR 31 '43		JOURNAL		2056 19	156 19
1749 17	MAR 31 '43		CASH BOOK	2205 36		1749 17
2287 12	MAR 31 '43		JOURNAL		4046 29	2287 12
2577 99	MAR 31 '43		JOURNAL	119 73		2577 99
2596 45	APR 30 '43		JOURNAL		19 06	2596 45
6485 87	APR 30 '43		JOURNAL		4287 42	6485 87
6087 87	MAY 31 '43		JOURNAL	1600 00		6087 87
1287 12	MAY 31 '43		CASH PAYABLE JR		4356 05	1287 12
682 15	JUN 30 '43		JOURNAL	3796 45		682 15
682 15	MAY 31 '43		A/PAY JR	4287 42		682 15
1608 55	JUN 30 '43		JOURNAL		3453 52	1608 55
7008 55	JUN 30 '43		JOURNAL	4355 03		7008 55
7153 52	JUL 31 '43		JOURNAL	3453 52		7153 52
0 00	JUL 31		JOURNAL	3270 76		0 00
5509 11			JOURNAL	2238 35		5509 11
2238 35			ACCTS PAY		4676 00	2238 35
0 00			ACCTS PAY	3270 76		0 00
0 00			JOURNAL	2238 35		0 00
1676 00			JOURNAL		4676 00	1676 00
9496 17			JOURNAL		4830 47	9496 17
11711 21			JOURNAL		5244 80	11711 21
16666 00			JOURNAL	10075 27		16666 00
0 00			ACCTS PAY	4666 00		0 00
6333 12			JOURNAL		6333 42	6333 12
6989 02			JOURNAL		655 60	6989 02
5937 82			JOURNAL	1000 00		5937 82
11211 04			JOURNAL	51 20		11211 04
11926 64			JOURNAL		333 22	11926 64
11101 11			JOURNAL	325 00		11101 11
5168 12			JOURNAL		8333 22	5168 12
9716 01			JOURNAL	8333 22		9716 01
12014 21			JOURNAL		4007 62	12014 21
			JOURNAL		2313 20	

ACCOUNTS RECEIVABLE

NAME ADDRESS ACCRUED HOFFMAN SALARY

SHEET NO.

215

OLD BALANCE	DATE	INV. NO.	DESCRIPTION	DEBIT	CREDIT	BALANCE
	DEC 31 '42		BAL FWD			12014 21
	JAN 31 '43	215	ACCTS PAY	12089 24		0 00



ACCOUNTS RECEIVABLE

GENERAL LEDGER

A

NAME ACCRUED HARMON BONUS

SHEET NO. 1

ADDRESS

214

OLD BALANCE	DATE	INV. NO.	DESCRIPTION	DEBIT	CREDIT	BALANCE	
0 00	FEB		JOURNAL		1230 56	1230 56	★
1230 56	MAR 31 '43		JOURNAL		1322 12	2552 68	★
2552 68	MAR 31 '43		JOURNAL		14 24	2566 92	★
2566 92	APR 30 '43		JOURNAL		1430 00	3997 00	★
3997 00	APR 30 '43		CASH PAYABLE	100 00		3897 00	★
3897 00	MAY 31 '43		JOURNAL		1433 41	5330 41	★
5330 41	JUN 30 '43		JOURNAL		1152 91	6483 32	★
6483 32	JUN 30 '43		JOURNAL	5351 21		1132 91	★
1132 91	JUL 31 '43		JOURNAL		1088 06	2220 97	★
2220 97	AUG 31 '43		JOURNAL		742 33	2963 30	★
2963 30	AUG 31 '43		ACCTS PAY	2240 97		742 33	★
742 33	SEP 30 '43		JOURNAL		1549 94	2292 27	★
2292 27	OCT 30 '43		JOURNAL		1604 76	3897 03	★
3897 03	OCT 30 '43		JOURNAL	3897 03		0 00	★
0 00	NOV 30 '43		JOURNAL		2105 74	2105 74	★
2105 74	DEC 31 '43		JOURNAL		2772 34	4878 08	★
4878 08	DEC 31 '43		JOURNAL	2772 34		2105 74	★
3105 74	DEC 31 '43		JOURNAL		1330 47	3436 21	★
3436 21	DEC 31 '43		JOURNAL		771 08	4207 29	★

ACCOUNTS RECEIVABLE

A

NAME ACCRUED HARMON BONUS

SHEET NO.

ADDRESS

214

OLD BALANCE	DATE	INV. NO.	DESCRIPTION	DEBIT	CREDIT	BALANCE	
4207 29	DEC 31 '43	BAL FWD				4207 29	★
	JUN 31 '44	214	ACCTS PAY	4207 29		0 00	★

EXHIBIT 18



EXHIBIT No. 19

Payments Made to Officers

1942

H. L. Hoffman, President.....	\$18,688.52
W. S. Harmon, Vice President.....	7,244.18
R. A. Yarcho, Secretary.....	2,483.25

1943

H. L. Hoffman, President.....	\$63,613.20
W. S. Harmon, Vice President....	22,171.08
R. A. Yarcho, Secretary.....	5,762.26



1943 PAYMENTS - Other than Hourly Employees
 (* Denotes Employed Less Than 12 Months)

NAME	CLASSIFICATION	SALARY	Engring Direction	Engring Material	Indirect Labor	Office	Administrative
Alden, Arthur C.	Stores Supervisor	42,068.61			\$2064.61		
Aldridge, Mattie	Material Control	83.66		\$83.66			
Andrews, Elaine	Clerk Typist	443.99			47.11	8443.99	
Appier, Harvey P.	Expeditor	47.11					
Arnar, R. L., Jr.	Jr. Engineer	653.00	\$653.00				
Arnold, James T.	Commissary Mgr.	1028.16					
Artman, John	Line Foreman	501.90					
Atie, Wm. D.	Jr. Engineer	940.89					
Aze, Jewel P.	Sr. Engineer	4,336.79	4336.79				
Bauer, Florence	Clerk Typist	574.61			574.61		
Bayntun, E. W.	Line Foreman	1,718.96					
Black, Ruth	De t. Clerk	1,404.75				1404.75	
Braslaw, Robert	Sr. Engineer	412.80					
Burley, Georgia E.	Clerk Typist	202.70		202.70			
Carlson, Helen E.	Clerk Typist	538.32					
Christilaw, John	Line Foreman	2,013.10			2013.10		
Cooper, Frederick W.	Jr. Engineer	937.37	937.37				
Davidge, C. Clifford	(	400.00					
Davidge, Mary M.	(	800.00					
Douglas, Walter D.	Personnel Mgr.	1,200.00					
Detstein, Gladyz	Mech. & Jr. Engr.	2,641.08			2641.08		
Edwards, E. E.	Material Control Mgr.	1,629.48			1629.48		
Fleming, P. . .	Accountant and	3,839.72		3839.72			
Forlund, E. F.	Asst. Treasurer	2,711.45				2711.45	
Frabn, Donald P.	Accountant B	1,862.01					
Freeman, Erains R.	Detail Craftsman	1,708.84	1708.84				
* Fuller, E. L.	Sales Engineer	3,370.85	3370.85				
Glatt, Martin L.	Jr. Engineer	1,059.55	1059.55				
Goodall, Edward J.	Line Foreman	221.53					
* Goodear, Raymond	Sr. Engineer	1,342.56	1342.56				
* Gray, George H.	Expeditor	1,208.30					
* Green, Willard J.	Section Engineer	925.31	925.31				
Harnot, W. S.	Vice President	3,900.00	3900.00				
Harris, Leland D.	Jr. Engineer	1,564.62		1564.62			
Hirsch, Betty	FBX Operator	2,132.48					2132.48
Ingersoll, Ione	Clerk Typist	80.00					80.00

1943 PAYMENTS - Other than Hourly Employees
 (* Denotes Employed Less Than 12 Months)

NAME	CLASSIFICATION	SALARY	Engring Direction	FACTORY BURDEN	Material Control	Indirect Labor	Office	Administrative
Alden, Arthur C.	Stores Supervisor	\$2,062.61				\$2004.61		
Aldridge, Mattie	Material Control	83.66		\$83.66			\$443.99	
Andrews, Elaine	Clerk Typist	443.99				47.11		
Appler, Harvey P.	Expeditior	47.11						
Arnor, R. L., Jr.	Jr. Engineer	653.00	\$653.00			1026.16		
Arnold, James T.	Commissary Mfr.	1026.16				501.90		
Artman, John	Line Foreman	501.90				940.99		
Avis, Wm. D.	Jr. Engineer	940.99						
Axe, Joel W.	Sr. Engineer	4,336.79	4336.79					
Bauer, Florence	Clerk Typist	574.61					574.61	
Baynton, E. W.	Line Foreman	1,718.96				1718.96		
Black, Ruth	Dist. Clerk	1,404.75					1404.75	
Bradshaw, Robert	Sr. Engineer	412.50	412.50					
Burles, Georgia K.	Clerk Typist	202.70	202.70					
Carlson, Helen E.	Clerk Typist	532.32					532.32	
Christilas, John	Line Foreman	2,013.10				2013.10		
Cooper, Frederick H.	Jr. Engineer	937.37	937.37					
Davidge, C. Gifford	(400.00	(400.00						
Deavree, Mary M.	(800.00	(800.00						
Deurias, Walter D.	1,200.00	1,200.00						
Eckstein, Olaf W.	2,641.08	2,641.08						
Edwards, E. S.	1,629.48	1,629.48				2641.08		
Fleming, P. . .	Material Control Mfr.	3,839.72	3839.72			1629.48		
Foralund, E. F.	Accountant and Asst. Treasurer	2,771.45					2771.45	
Frab, Donald B.	Accountant B	1,882.01		1882.01				
Freeman, Eraine R.	Detail Draftsman	1,708.84	1708.84					
*Fuller, B. L.	Sales Engineer	3,370.85	3370.85					
Glatt, Martin L.	Jr. Engineer	1,059.55	1059.55					
Goodall, Edward J.	Line Foreman	221.53				221.53		
* Goodear, Edmund	Sr. Engineer	1,342.56	1342.56					
* Gray, George H.	Expeditior	1,708.30						
* Green, Willard J.	Section Engineer	925.31	925.31					
Harnot, W. S.	Vice President	3,900.00	3900.00					
Harris, Leland D.	Jr. Engineer	1,564.62						
Hirsch, Betty	PBX Operator	2,132.48						
Ingersoll, Ione	Clerk Typist	80.00						2132.48 80.00



FACTORY BU. DEPT.

Name	Classification	Salary	Engineering Direction	Engineering	Material Control	Indirect Labor	Office	Administrative
Johnson, Eugene A.	Drafting	477.26	477.26		1399.66	1584.22		
Johnson, Margaret	Clerk Typist	1,399.66			1682.76	3939.05		
Jones, George W.	Jr. Engineer	1,682.76			2741.89		2027.94	
Kershner, Edward J.	Expeditior	3,939.05						
Knox, Eugene K.	Line Foreman	2,741.89						
Largher, Steiner G., Jr.	Expeditior	2,027.94						
Leadbetter, Lisle E.	Bookkeeper	1,623.29						
LeValley, Lillian K.	Department Clerk	522.12	522.12					
McCaughy, P. P.	Jr. Engineer	1,667.96	1667.96					
*McGinnis, J. Fred	Section Engineer	1,602.95			1002.95			
McKinley, Alice	Prod. Record Clerk	1,273.51						
McMahon, G. J.	Line Foreman	5,168.85						
McNeely, R. J.	Plant Manager	2,050.79						
Maddox, Glenda	Stenographer	459.00						
Lois J. Mainord	Clerk Typist	3,418.43	3418.43				2050.79	
*Meador, Howard P.	Draftsman	3,562.32	3562.32				459.00	
*Miller, Cyril G.	Section Engineer	554.01						
Miller, Jay	Department Clerk	2,041.88						
*Mitchell, Jack M.	Senior Engineer	2,843.01						
Moulton, John C.	Receiving Inspector	54.00						
Aberdeck, Doris M.	Typist Clerk	113.39						
*O'Connor Ernestine L.	Secretary	406.84						
CVKeefe, John V.	Line Foreman	0.50						
Osborne, Grover H.	Inspector	1,029.21						
Parkhurst, Albert G.	Junior Engineer	1,481.95						
Payton, Willie J.	Buyer	306.69	306.69					
Pearson, Wesley J.	Jr. Engineer	705.01						
Peterson, Wilfred H.	Clerk Typist	2,865.70						
*Pogner, Joseph E.	Senior Engineer	1,350.00						
Pancey, Cleo R.	Clerk Typist	301.35						
Perh, Pearl E.	Clerk Typist	4,407.04	4407.04					
Reiers, George L.	Jr. & Sr. Engineer	2,508.17						
Reiers, George H.	Line Foreman	95.32						
Hollins, Ann	Clerk Typist	147.10						
Reone, Herbert T.	Foreman	362.49						
Sacchetti, Frank J.	Sr. Engineer	2,143.50						
*Sakton, John E.	Section Engineer	1,836.23						
Salamon, Sophie	Department Clerk	337.50						
Sorman, Ella H.	Jr. Engineer	1836.23						

FACTORY BUDGET

Name	Classification	Salary	Engineering Direction	Engineering Control	Material Indirect Labor	Office	Administrative
Sims, Sam H.	Draftsman	\$1,162.85	\$1162.85				
Snyder, Walter H.	Accountant	1,937.55				\$1937.55	
Solomon, Yvonne	Detail Draftsman	2,636.74	2636.74				
Sprague, Sam L.	Line Foreman	846.89				\$846.89	
Stegedill, Betty	Clerk Typist	1,380.51	1380.51				
Strong, Murie O.	Expeditor	4,593.88	4593.88				
Taylor, Jay L.	Section Engineer	976.97	976.97				
Thiesen, Mary E.	Clerk Typist	665.25					
Thomas, Stuart J.	Foreman	2,106.81				\$2106.81	
Turek, Arlie E.	Department Clerk	2,116.93				2116.93	
Waller, Stacey	Foreman	2,572.88				2572.88	
Walrod, Charles R.	Expeditor	2,701.24				2701.24	
Wess, Rexford	Line Foreman	676.07					
Yeters, J. R.	Ex editor	2,090.57				2090.57	
* Webster, E. C.	Senior Engineer	2,966.39	2966.39				
* Wiener, Morton	Senior Engineer	2,274.10	2274.10				
Wiener, Paul	Senior Engineer	4,061.93	4061.93				
Willner, Frank E.	Expeditor	730.00					
Winstead, Solomon	Senior Engineer	1,772.60	1772.60				
Worsh, John S.	Junior Engineer	2,401.40	2401.40				
Yarebo, R. A.	Junior Engineer	5,762.26					
Zobel, Arthur	Engineer	1,222.86					
Harmon, W. S. Bonus		18,271.08	18271.08				
Hoffman, W. L. - Salary and Bonus		\$3,613.20					

TOTAL \$240,564.96 \$22,171,009.56 744,358 \$1152.99 \$42514.10 \$18809.96 \$69375.46

52

15762.76

63612.20



PAYMENTS TO OFFICERS

Period	Gross Income	Net Income	Dividends Paid	P. L. H. C. W. S.		Sales & Admin. to Gross Income	Sales Commissions	Engineer	Per Cent of Engineer to Gross Income
				President	Treasurer				
1932	\$ 26,219.55	(\$5,438.83)	\$ 0	\$1,215.00	\$1,215.00	14%	*	*	*
1933	66,975.32	(2,161.67)	0	2,340.00	810.00	8%	*	*	*
1934	115,718.64	667.77	0	5,600.00	0	9.7%	*	*	*
1935	176,875.21	2,115.27	0	4,005.00	0	4.5%	*	*	*
1936	341,229.86	8,087.97	7,230.00	5,185.00	0	3.2%	570.09	2,466.36	.72%
1937	257,277.61	3,702.87	0	5,200.00	0	5%	2,491.96	4,227.00	1.64%
1938	235,525.09	3,624.29	0	5,200.00	0	5.2%	1,843.98	4,334.00	1.84%
1939	191,542.31	(8,275.58)	0	5,200.00	0	6.9%	2,714.20	4,072.20	2.12%
1940	121,812.16	(11,891.50)	0	5,300.00	4,900.00	9.3%	1,151.98	1,759.88	1.44%
1941	29,763.82	(15,470.54)	0	2,364.00	0	8.4%	149.20	1,812.50	6.08%

* Records not available for 1932 to 1935, inclusive.

EXHIBIT 21

PAYMENTS TO OFFICERS

Period	Gross Income	Net Income	Dividends Paid	H. L. Hoffman W. S. Harmon R. A. Yareho		Sales & Admin. to Gross Income	Sales Commissions	Engineer	Per Cent of Engineer to Gross Income
				President	Vice President					Secretary
1942	\$ 351,950.62	\$36,389.06	\$ 0	\$ 18,688.52	(See Engineer)	\$2,485.25	\$ 0	\$ 7,244.18	2.06%
1943	1,836,432.99	In dispute	0	63,613.20	"	5,762.26	0	22,171.08	1.2%



In the United States Court of Appeals
for the Ninth Circuit

The Tax Court of the United States
Docket No. 11683

HOFFMAN RADIO CORPORATION (Formerly
Mission Bell Radio Mfg. Co., Inc.),

Appellant,

vs.

COMMISSIONER OF INTERNAL REVENUE,

Appellee.

PETITION FOR REVIEW OF DECISION OF
THE TAX COURT OF THE UNITED
STATES

Comes now Hoffman Radio Corporation, the appellant herein, through its counsel of record, and respectfully petitions for a review in the United States Circuit Court of Appeals for the Ninth Circuit of the final decision of The Tax Court of the United States entered on September 22, 1948.

I.

Nature of the Controversy

The controversy involves a determination, under Section 23(a)(1) of the Internal Revenue Code and the regulations and rulings of the appellee promulgated thereunder, of what is a reasonable allowance for the calendar taxable year 1943 for salary or other compensation paid by appellant to H. L. Hoffman, its President and General Manager, for personal services actually rendered.

Under date of May 9, 1946, the Commissioner of Internal Revenue determined deficiencies in the following taxes and amounts against the appellant for the calendar taxable year 1943:

Declared value excess profits tax deficiency	\$1,334.34
Income tax deficiency.....	3,279.24
Excess profits tax deficiency.....	51,331.77

The asserted deficiencies were occasioned by several adjustment to income, only one of which was contested by the appellant, namely, appellee's determination that the appellant, in reporting taxable income for the year 1943, was not entitled to deductions for the following: [456]

\$38,613.20 of the \$63,613.20 compensation for personal services paid to H. L. Hoffman, its President and General Manager.

\$10,171.08 of the \$22,171.08 compensation for personal services paid to W. S. Harmon, its Vice President and Chief Engineer.

The appellant filed a timely appeal with The Tax Court of the United States, and the proceeding was tried in Los Angeles, California, on December 11 and 12, 1947, before the Honorable Richard L. Disney, Judge of The Tax Court of the United States. Under date of June 29, 1948, the Tax Court of the United States entered its Memorandum Findings of Fact and Opinion, and stated that decision would be entered under its Rule 50. The appellee filed a computation for entry of decision under said Rule 50, to which computation the appellant filed its consent, and on September 22, 1948, The Tax Court of the United States entered

its decision that there are deficiencies in the income and excess profits taxes of the appellant for the calendar taxable year 1943 in the respective amounts of \$3,279.24 and \$32,262.38, and that there is no deficiency in the declared value excess-profits tax of the appellant for said year. [457]

The deficiencies in income and excess profits taxes decided by The Tax Court of the United States were based (aside from adjustments to income not at issue before the Tax Court) on the determination that the appellant, in reporting taxable income for the calendar taxable year 1943, was not entitled to a deduction for \$23,613.20 of the \$63,613.20 compensation for personal services paid to H. L. Hoffman, its President and General Manager. Thus, the deficiencies determined by The Tax Court of the United States differ from the deficiencies originally determined by the appellee in that the Tax Court decided that the appellant was entitled to deduct all, instead of only \$12,000.00 as determined by the appellee, of the \$22,171.08 compensation for personal services paid to W. S. Harmon, its Vice President and Chief Engineer, and that it was entitled to deduct \$40,000.00, instead of \$25,000.00 as determined by the appellee, of the \$63,613.20 compensation for personal services paid to H. L. Hoffman, its President and General Manager.

The appellant respectfully submits that under Section 23(a)(1) of the Internal Revenue Code and the regulations and rulings of the appellee promulgated thereunder, a reasonable allowance for the calendar taxable year for salary or other

compensation paid by [458] appellant for personal services actually rendered by H. L. Hoffman, its President and General Manager, is \$63,613.20 instead of \$40,000.00 as determined by The Tax Court of the United States.

II.

The Court in Which Review Is Sought

The United States Circuit Court of Appeals for the Ninth Circuit is the Court in which review of the decision of The Tax Court of the United States is sought pursuant to the provisions of Section 1141 of the Internal Revenue Code.

III.

Venue

The final decision of The Tax Court of the United States was entered on September 22, 1948. The appellant now is, and at all material times has been, a corporation organized under the laws of the State of California, with its principal office and place of business in the County of Los Angeles, State of California, which County is within the Sixth Collection District of California and within the Ninth Judicial Circuit of the United States. The returns of tax of the appellant in respect to which the contested tax liability arises were made to the United States Collector of Internal Revenue for the said Sixth Collection District of California, and the office of said Collector is located at Los Angeles, California, and is within the Ninth Judicial Circuit of the United States.

The appellant and appellee have not stipulated that the said final decision of The Tax Court of the United States may be reviewed by any United States Circuit Court of Appeals other than the one herein designated.

V.

The applicant avers that in the record and proceedings before The Tax Court of the United States, and in the findings of facts, opinion, and decision of said Court, manifest error occurred and intervened to the prejudice of the appellant.

Wherefore, appellant prays that the decision of The Tax Court of the United States be reviewed by the United States Circuit Court of Appeals for the Ninth Circuit; that a transcript of the record be prepared in [460] accordance with the law and the rules of, or governing, said Courts, and be transmitted to the Clerk of the United States Circuit Court of Appeals for the Ninth Circuit for filing; and that appropriate action be taken that the errors complained of may be reviewed and corrected by said Circuit Court of Appeals.

Dated November 18, 1948.

/s/ CLAUDE I. PARKER,
/s/ JOHN B. MILLIKEN,
/s/ RALPH KOHLMEIER,
/s/ HARRISON HARKINS,
Counsel for Appellant.

Of Counsel:

/s/ L. A. LUCE,

[Endorsed]: T.C.U.S. Filed Nov. 30, 1948.

The Tax Court of the United States

[Title of Cause.]

NOTICE OF FILING OF PETITION
FOR REVIEW

To: Hon. Charles Oliphant, Chief Counsel, Bureau of Internal Revenue, Washington, D. C.

You are hereby notified that the petitioner on the 30th day of November, 1948, filed with the Clerk of The Tax Court of the United States at Washington, D. C., a petition for review by the United States Circuit Court of Appeals for the Ninth Circuit of the decision of The Tax Court of the United States entered on September 22, 1948, in the above-entitled proceeding; and a copy of said petition for review, as filed, is [462] attached hereto and served upon you with the service of this notice.

Dated Nov. 30, 1948.

/s/ CLAUDE I. PARKER,
/s/ JOHN B. MILLIKEN,
/s/ RALPH KOHLMEIER,
/s/ HARRISON HARKINS,
Counsel for Petitioner.

Of Counsel:

/s/ L. A. LUCE,

[Acknowledgment of Service.) [463]

[Endorsed]: T.C.U.S. Filed Nov. 30, 1948.

[Title of Tax Court and Cause.]

MOTION FOR ORDER DIRECTING TRANSMISSION OF EXHIBITS IN ORIGINAL FORM ON APPEAL

Comes now Hoffman Radio Corporation, the petitioner herein, through its counsel of record, and respectfully moves as follows:

Whereas, the petitioner has filed a petition for review by the United States Circuit Court of Appeals for the Ninth Circuit of the Decision entered on September 22, 1948, by The Tax Court of the United States in the above-entitled proceedings; and

Whereas, the petitioner will designate for inclusion in the record on review in this cause the following among other things: [464]

1. The Stipulation of Facts filed on December 11, 1947, together with Exhibits 1 to 22, both inclusive, attached thereto.

2. Petitioner's Exhibits 1 to 5, both inclusive, filed at the hearing.

3. Respondent's Exhibits A to G, both inclusive, filed at the hearing, but excluding Exhibit H not introduced into evidence; and

Whereas, the petitioner submits that it will serve the ends of economy and practicality in the preparation of the records on review, and materially accelerate the progress of the appeal, if this Honorable Court would enter an order in conformity

with Rule 75 in the Federal Rules of Civil Procedure that the above-mentioned stipulations and exhibits should be transmitted in their original form to the Clerk of the United States Circuit Court of Appeals for the Ninth Circuit;

Now, Therefore, petitioner respectfully moves that an order be entered by this Honorable Court directing that the stipulations and exhibits hereinbefore set forth be transmitted to the Clerk of the United States Circuit Court of Appeals for the Ninth Circuit in their original form with the record on review in this cause, and containing such further directions regarding the safekeeping, [465] transportation, and return thereof as this Honorable Court shall deem proper.

Dated Nov. 30, 1948.

/s/ CLAUDE I. PARKER,
/s/ JOHN B. MILLIKEN,
/s/ RALPH KOHLMEIER,
/s/ HARRISON HARKINS,
Counsel for Petitioner.

Of Counsel:

/s/ L. A. LUCE. [466]

[Endorsed]: T.C.U.S. Filed December 16, 1948.

The petitioner avers that The Tax Court of the United States erred: [468]

(A) In finding and determining that there are deficiencies in the income and excess profits taxes of the petitioner for the calendar taxable year 1943 by reason of the disallowances as a deduction, in computing taxable income of \$23,613.20 of the \$63,613.20 compensation for personal services actually rendered, paid by petitioner to H. L. Hoffman, its President and General Manager, in 1943.

(B) In failing to find and decide that, within the meaning of Section 23(a)(1)(A) of the Internal Revenue Code, a reasonable allowance for salary and contingent compensation for personal services actually rendered, paid by petitioner in 1943 to H. L. Hoffman, its President and General Manager, under a contract dated December 4, 1941, was at least \$63,613.20.

(C) In finding and deciding, without any evidence or substantial evidence in support thereof, that reasonable compensation for services performed by H. L. Hoffman, the President and General Manager of the petitioner, for the year 1943 was only \$40,000.00.

(D) In misinterpreting and failing to give proper legal effect to Section 29.23(a)-6 of United States Treasury Department Regulations 111. [469]

(E) In disregarding the rule, established by Section 29.23(a)-6 of United States Treasury Department Regulations 111 and settled court decisions, that under Section 23(a)(1)(A) of the Internal Revenue Code, in determining a reasonable allowance for compensation paid, the circumstances

to be taken into consideration are those existing at the date when the contract for services was made, not those existing at the date when the contract is questioned.

(F) In finding and deciding, without any evidence or substantial evidence in support thereof, that the contract of employment, dated December 4, 1941, between the petitioner and H. L. Hoffman, was not the result of a free bargain between the parties to secure the services of Hoffman; and in failing to find and decide that said contract was the result of a free bargain between the parties to secure the services of Hoffman.

(G) In failing to give proper legal effect to the fact that, in the case of a contingent compensation contract based on a percentage of the employer's gross sales where the business and fiscal activities of the employer overlap several calendar years, as are the facts found in this proceedings, the compensation [470] paid the employee for any one year is in part compensation for personal services rendered by the employee in prior years as well as the year of payment.

(H) In disregarding the unimpeached testimony of qualified and competent expert witnesses that the compensation of \$63,613.20 paid by petitioner to H. L. Hoffman in 1943 was reasonable.

(I) In misinterpreting and failing to give proper legal effect to the evidence of compensation paid for like services by like enterprises under like circumstances, in accordance with the rule established by Section 29.23(a)-6 of United States Treas-

ury Department Regulations 111 and settled court decisions.

II. Designation of Contents of Record on Review.

The petitioner designates for inclusion in the record on review in this proceeding the following:

The complete record of all the proceedings and evidence taken before The Tax Court of the United States and all matters required to be included therein by Rule 75(g) of the Federal Rules of Civil Procedure, giving effect, when possible, to the admonitions of Rule 75(e) of the Federal Rules of Civil Procedure, and including the following: [471]

(A) Docket entries of all the proceedings before The Tax Court of the United States.

(B) The pleadings, including the Petition of the petitioner, together with the annexed copy of the statutory deficiency notice, and the Answer of the respondent.

(C) The Memorandum Findings of Fact and Opinion entered June 29, 1948.

(D) The Decision entered September 22, 1948.

(E) The Official Report of Proceedings, pages 1 to 342, both inclusive.

(F) The Stipulation of Facts filed on December 11, 1947, together with Exhibits 1 to 22, both inclusive, attached thereto.

(G) Petitioner's Exhibits 1 to 5, both inclusive, filed at the hearing.

(H) Respondent's Exhibits A to G, both inclusive, filed at the hearing, but excluding Exhibit H, not introduced into evidence.

(I) The Petition for Review of Decision of the Tax Court of the United States.

(J) The Notice of Filing of Petition for Review, together with proof of service thereof and service of the annexed copy of the Petition for Review. [472]

(K) The Motion, together with proof of service thereof, and the Order re transmission of documents in original form.

(L) This document, together with proof of service thereof.

Dated Nov. 30, 1948.

/s/ CLAUDE I. PARKER,
/s/ JOHN B. MILLIKEN,
/s/ RALPH KOHLMEIER,
/s/ HARRISON HARKINS,
Counsel for Petitioner.

Of Counsel:

/s/ L. A. LUCE,

(Acknowledgment of Service.) [473]

[Endorsed]: T.C.U.S. Filed Dec. 16, 1948.

[Title of Tax Court and Cause.]

CERTIFICATE

I, Victor S. Mersch, clerk of The Tax Court of the United States, do hereby certify that the foregoing pages, 1 to 474, inclusive, contain and are a true copy of the transcript of record, papers, and proceedings on file and of record in my office as

In the United States Court of Appeals for the
Ninth Circuit

No. 12144

HOFFMAN RADIO CORPORATION, (For-
merly Mission Bell Radio Mfg. Co., Inc.),

Petitioner,

vs.

COMMISSIONER OF INTERNAL REVENUE,

Respondent.

MOTION FOR ENLARGEMENT OF TIME
FOR THE PREPARATION, TRANSMIS-
SION AND FILING OF THE RECORD
UPON PETITION FOR REVIEW

Comes now Hoffman Radio Corporation, the Pe-
titioner on review in the above-entitled cause, by
and through its counsel of record and moves that
the time for the preparation, transmission and fil-
ing in this Honorable Court of the record upon
Petition for Review by the Clerk of the Tax Court
of the United States be enlarged by a period of
thirty days or until February 8, 1949.

In support of this motion, the Petitioner states
the following facts and submits the attached affi-
davit.

The Petition for Review in this cause was filed
with The Tax Court of the United States on No-
vember 30, 1948, and the time for preparing and
transmitting the record by the Clerk of The Tax
Court of the United States will expire on Janu-
ary 9, 1949. No previous extension of time has been

granted. Owing to the necessity of obtaining an agreement between the parties as to the contents of the record and the voluminous nature of the record which must be prepared, the Clerk of The Tax Court will not be able to complete and transmit the record by January 9, 1949.

Wherefore, the Petitioner respectfully requests the Court to order, pursuant the Rules 13 and 31 (3) of the Court, that the time to prepare, transmit and file the record in this cause be enlarged to February 8, 1949.

Dated this 21st day of December, 1948.

/s/ CLAUDE I. PARKER,
/s/ JOHN B. MILLIKEN,
/s/ RALPH KOHLMEIER,
/s/ HARRISON HARKINS.

[Endorsed]: T.C.U.S. Filed Dec. 29, 1948.

[Endorsed]: Filed January 4, 1949. Paul P. O'Brien, Clerk.

AFFIDAVIT IN SUPPORT OF MOTION FOR ENLARGEMENT OF TIME

County of Los Angeles,
State of California—ss.

Harrison Harkins, being first duly sworn, deposed and says:

That he is one of counsel for the Hoffman Radio Corporation, and that on November 30, 1948, said corporation filed with the Clerk of the Tax Court of the United States a Petition for Review wherein and whereby the said corporation petitioned the Review wherein and whereby the said corporation petitioned the United States Court of Appeals for

the Ninth Circuit to review the decision of the Tax Court of the United States in the cause of Hoffman Radio Corporation v. Commissioner of Internal Revenue, Tax Court Docket No. 11683;

That counsel for said petitioner forthwith sought to obtain an agreement with counsel for the respondent in said cause as to the contents of the record on appeal, but such agreement was not reached and the designation of record was not filed until December 16, 1948;

That the record on appeal is voluminous;

That the affiant is informed and believes, and on that ground states, that due to the facts recited herein the Clerk of The Tax Court of the United States will not be able to complete, transmit and file the record on appeal by January 9, 1949;

That no previous enlargement of time has been ordered in said cause.

/s/ HARRISON HARKINS.

Subscribed and sworn to before me this 21st day of December, 1948.

[Seal] PEARL ANDERSON,

Notary Public in and for said County and State.
My commission expires on Sept. 3, 1950.

Ordered Time Extended as Prayed for.

(Seal) /s/ WILLIAM DENMAN,
Chief Judge, U. S. Court of Appeals for the Ninth District.

A true copy. Attest: Dec. 23, 1948. Signed Paul P. O'Brien, Clerk.

[Endorsed]: Filed December 23, 1948. Paul P. O'Brien, Clerk.

[Title of U. S. Court of Appeals and Cause.]

APPELLANT'S STATEMENT OF ERRORS
RELIED UPON AND DESIGNATION OF
PARTS OF THE RECORD TO BE
PRINTED

Comes now Hoffman Radio Corporation, the appellant, by and through its counsel of record, and states the following:

I. Statement of Errors Relied Upon.

The appellant avers that in the record and proceedings before The Tax Court of the United States and in the opinion, findings of fact, and decision rendered by said Court, manifest error occurred and intervened to the prejudice of the appellant, who now assigns the following points on which appellant intends to rely in this proceeding:

The Tax Court of the United States erred:

(A) In finding and determining that there are deficiencies in the income and excess profits taxes of the appellant for the calendar taxable year 1943 by reason of the disallowance as a deduction, in computing taxable income, of \$23,613.20 of the \$63,613.20 compensation for personal services actually rendered, paid by appellant to H. L. Hoffman, its President and General Manager, in 1943.

(B) In failing to find and decide that, within the meaning of Section 23(a)(1)(A) of the Internal Revenue Code, a reasonable allowance for salary and contingent compensation for personal services actually rendered, paid by appellant in

1943 to H. L. Hoffman, its President and General Manager, under a contract dated December 4, 1941, was at least \$63,613.20.

(C) In finding and deciding, without any evidence or substantial evidence in support thereof, that reasonable compensation for services performed by H. I. Hoffman, the President and General Manager of the appellant, for the year 1943 was only \$40,000.00.

(D) In misinterpreting and failing to give proper legal effect to Section 29.23(a)-6 of United States Treasury Department Regulations 111, in that the Court did not apply the rule laid down in said regulation that in considering the question of a reasonable allowance for compensation paid pursuant to a pre-existing contract, the circumstances to be considered are those existing at the date when the contract for services were made, not those existing at the date when the contract is questioned; and if contingent compensation is paid pursuant to a free bargain between the employer and the individual made before the services are rendered, not influenced by any consideration upon the part of the employer other than that of securing in fair and advantageous terms the services of the individual, it should be allowed as a deduction even though in the working out of the contract it may prove to be greater than the amount which would ordinarily be paid.

(E) In disregarding the rule, established by Section 29.23(a)-6 of United States Treasury Department Regulations 111 and settled court decisions, that, under Section 23(a)(1)(A) of the In-

ternal Revenue Code, in determining a reasonable allowance for compensation paid, the circumstances to be taken into account are those existing at the date when the contract for services was made, not those existing at the date when the contract is questioned.

(F) In finding and deciding, without any evidence or substantial evidence in support thereof, that the contract of employment between the appellant and H. L. Hoffman, dated December 4, 1941, was not the result of a free bargain between the parties to secure the services of Hoffman; and in failing to find and decide that said contract was the result of a free bargain between the parties to secure the services of Hoffman.

(G) In failing to give proper legal effect to the fact that, in the case of a contingent compensation contract based on a percentage of the employer's gross sales where the business and fiscal activities of the employer overlap several calendar years, as are the facts found in this proceeding, the compensation paid the employee for any one year is in part compensation for personal services rendered by the employee in prior years as well as the year of payment.

(H) In disregarding the unimpeached testimony of the qualified and competent expert witnesses, John H. Clippinger, James H. Tuttle, and S. W. Gilfillan, that the compensation of \$63,613.20 paid by the appellant to H. L. Hoffman in 1943 was reasonable.

(I) In misinterpreting and failing to give proper legal effect to the evidence of compensa-

tion paid for like services by like enterprises (Admiral Corporation and Gilfillan Bros., Inc.) under like circumstances, in accordance with the rule established by Section 29.23(a)-6 of United States Treasury Department Regulations 111 and settled court decisions.

II. Designation of Parts of the Record to Be Printed.

Appellant designates the entire record, as certified to this Honorable Court by Clerk of The Tax Court of the United States inclusive of the Original Exhibits, as necessary to be printed for the consideration of the points set forth above. Petitioner also designates this statement of errors and designation, together with proof of service thereof, as necessary to be printed.

Dated January 6, 1949.

/s/ CLAUDE I. PARKER,
/s/ JOHN B. MILLIKEN,
/s/ RALPH KOHLMEIER,
/s/ HARRISON HARKINS,
Counsel for Appellant.

Of Counsel:

/s/ L. A. LUCE,

[Endorsed]: Filed January 7, 1949. Paul P. O'Brien, Clerk.

